



GARY-WILLIAMS
ENERGY CORPORATION

April 7, 1998

Kenneth R. Vogel
Chief, Office of Enforcement
Minerals Management Service

VIA Fax 303-231-3362

Dear Ken:

We are in receipt of your April 6th letter in which you outlined your counter proposal for changes for the refiner Royalty-in-Kind (RIK) contract.

While we continue to appreciate your efforts in this area, you must understand that our offer was not based on an irrelevant formula that considers arms-length sales vs. non-arms-length sales. Our offer simply considers market value, the only prudent way in which to purchase crude oil.

In consideration, however, of your revised proposal regarding surety requirements as outlined in your letter, we hereby modify our differentials as follows:

Light Louisiana Sweet	St. James
Heavy Louisiana Sweet	Empire
Eugene Island	St. James
Bonito Sour	St. James
Mars	Clovelly
Texas Gulf Coast	Texas City

↑ ↑
X-4
↓ ↓
X-5

X-4,
X-5

We are in agreement with all other items as outlined in your April 6, 1998 letter with the exception that the pricing formula would utilize "X-4, X-5"

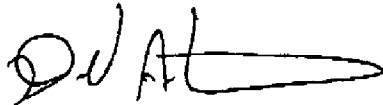
As stated in the March 27, 1998 meeting, the four undersigned refiners are prepared to immediately individually work with you on defining actual transportation costs and quality adjustments, if any, back to the lease once agreement has been reached.

Kenneth R. Vogel
Minerals Management Service
April 7, 1998

Due to the "market sensitive" nature of our proposal, our offer must be withdrawn by 5:00 p.m. Mountain Daylight Savings Time on April 9th if acceptance is not received by you prior to that time.

Thank you, Ken.

Sincerely,

A handwritten signature in dark ink, appearing to read "D. A. Hamilton", with a long horizontal stroke extending to the right.

Donald A. Hamilton

AND DONALD A. HAMILTON ON BEHALF OF:

Rod Nelson
Calcasieu Refining Company

Luke Wethers
Giant Refining Company

Dennis Cernosek
Placid Refining Company



GARY-WILLIAMS
ENERGY CORPORATION

April 16, 1998

OPTIONAL FORM 99 (7-90)

FAX TRANSMITTAL

To: <i>Debbie Tschody</i>	From: <i>Ken</i>
Dept./Agency: <i>Dave Domagala</i>	Phone #
Fax #	Fax #

NSN 7540-01-317-7388 5099-101 GENERAL SERVICES ADMINISTRATION

Kenneth R. Vogel
Chief, Office of Enforcement
Minerals Management Service

VIA FAX: 303/231-3362

Dear Ken:

Thank you for the meeting today. I hope that the industry contracts presented to you in this meeting, and in prior meetings, help in evaluating our proposal.

In our meeting, you asked for a new proposal. We hereby offer the following differentials.

Light Louisiana Sweet
Heavy Louisiana Sweet
Eugene Island
Bonito Sour
Mars
Texas Gulf Coast

St. James
Empire
St. James
St. James
Clovelly
Texas City

↑ ↑
X-4 X-5
↓ ↓

Due to the market sensitive nature of this proposal, this offer is only valid until 5:00 p.m. Mountain Time, April 20, 1998. We are in agreement with all the other items as outlined in your April 6, 1998 letter. We would very much appreciate hearing from you prior to that time as I am sure everyone involved wishes to come to a resolution on this issue.

Sincerely,

Donald A. Hamilton
VP, Raw Material Supply

AND DONALD A. HAMILTON ON BEHALF OF:

Rod Nelson, Calcasieu Refining Company
Luke Wethers, Giant Refining Company
Dennis Cernosek, Placid Refining Company

hence

HOLLAND & HART
ATTORNEYS AT LAW

DENVER • ASTEN
BOULDER • COLORADO SPRINGS
DENVER TECH CENTER
BILLINGS • BOISE
CHEYENNE • JACKSON HOLE
SALT LAKE CITY

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2020 CAREY AVENUE
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MAILING ADDRESS
EQ. BOX 1947
CHEYENNE, WYOMING 82003-1347

TELEPHONE (307) 778-4200
FACSIMILE (307) 778-8175

THOMAS L. SANSONETTI,
P.C.
307-778-4235
t.sansonetti@hollandshart.com

March 25, 1998

VIA FAX: 202-208-3968

Cynthia Quarterman, Director
Minerals Management Service
Department of the Interior
1849 C Street N.W.
Washington, DC 20240

Re: April Meeting With Small Refiners Coalition

Dear Director Quarterman:

I am writing to request a meeting with you on behalf of the five members of a small refiners coalition that I represent. All of the coalition members either are or have been participants in the Minerals Management Service's royalty-in-kind (RIK) program.

We wish to discuss with you our desire to obtain a legislative solution to the retroactive pricing adjustments for alleged past under valuations that is creating havoc for the small refiner industry and the RIK program itself. We would like thirty minutes of your time. The attendees besides myself would be one representative from each of the following companies: Wyoming Refining, Gary-Williams, Giant Refining, Placid Refining and Calcasieu Refining.

I understand from your secretary Lynn Renna that you are booked until the week of April 20th. Since our coalition members will be in Washington, D.C. to attend the House Resource energy subcommittee hearings on H.R. 3334 on April 23, any day that week would be particularly convenient.

Sincerely,

Tom

Thomas L. Sansonetti, P.C.
A PARTNER OF HOLLAND & MART

MINERALS MANAGEMENT SERVICE
Royalty Management Program
Associate Director's Office
Washington, DC
(202) 208-3415
fax: (202) 501-0247

To:

Kim Vogel

Fax #:

From:

Lucy

Date:

3/30

Number of pages including cover:

2

COMMENTS:

Please call Ginger L. Powell regarding any problems with this fax at (202) 208-3415.

AD/OE
Mail Stop 3030

MAR 20 1998

Mr. Thomas Sansonetti
Holland & Hart
Suite 500
2020 Carey Avenue
Cheyenne, Wyoming 82001

Re: Small Refiner Royalty-in-Kind Program

Dear Mr. Sansonetti:

This letter is in response to your March 9, 1998, requesting resolution of several issues involving retroactive pricing, and future deliveries. We understand that retroactive price adjustments are the most important issue and would impact you the greatest. However, the Minerals Management Service (MMS) can not agree that retroactive price adjustments will not occur. We believe we must separate the issue of past pricing from the issue of making future pricing more business-like.

With regards to future deliveries, if MMS can agree on a final price, the invoiced price will not be subject to audit in the future.

Administrative fees will be adjusted according to changes in cost. MMS can not guarantee that fees will be lower for future deliveries. At this time, MMS is unable estimate or provide to you the future administrative fees. However, while our costs may go up temporarily, we do not intend to raise them during this fiscal year.

Your proposal to reduce the letter of credit requirements are valid. We are currently reviewing the options and will be able to discuss them in more detail in our next meeting.

We would still like to meet with the you on March 27, 1998, to discuss these issues and options. The meeting will take place at 9:00 a.m. in the Auditorium, Building 85, Denver Federal Center. To make the this meeting as useful as possible, we had hoped that you could be prepared with whatever market information you hoped to use (especially to the extent you hoped to use a benchmark other than spot prices). To the extent that you intend to propose the use other price benchmarks, it will greatly increase the effectiveness of our meeting if you could share those proposed benchmarks, along with the data to support the proposal and the leases to which you believe they should apply.

If you have any questions, regarding location of the meeting or hotel accommodations, please call Linda Shishido at 303-231-3072. If you have any questions regarding this meeting, please do not hesitate to call me. We look forward to seeing you.

Sincerely,

Original Signed By
Kenneth R. Vogel

Kenneth R. Vogel
Chief, Office of Enforcement

AD/OE
Mail Stop 3030

MAR 20 1998

Mr. Bob Neufeld
Wyoming Refining Company
1600 Broadway
Suite 2300
Denver, Colorado 80202

Re: Small Refiner Royalty-in-Kind Program

Dear Mr. Neufeld:

This letter is in response to your March 9, 1998, requesting resolution of several issues involving retroactive pricing, and future deliveries. We understand that retroactive price adjustments are the most important issue and would impact you the greatest. However, the Minerals Management Service (MMS) can not agree that retroactive price adjustments will not occur. We believe we must separate the issue of past pricing from the issue of making future pricing more business-like.

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Sincerely,
Original Signed By
Kenneth R. Vogel

Kenneth R. Vogel
Chief, Office of Enforcement

CONFIRMATION REPORT - MEMORY SEND

Time : MAR-19-98 18:00
Fax number: 3032313362
Name : OE/PSO

Job : 576
Date : MAR-19 17:59
To : 96283828
Doc. pages : 02
Start time : MAR-19 17:59
End time : MAR-19 18:00
Pages sent : 02
Job:576

*** SEND SUCCESSFUL ***



IN REPLY REFER TO:

AD/OE
Mail Stop 3030

Mr. Don Hamilton
Gary-Williams Energy Corp
370 17th Street
Denver, Colorado 80202

Re: Small Refiner Royalty-in-Kind Program

Dear Mr. Hamilton:

This letter is in response to your March 9, 1998, requesting resolution of several issues involving retroactive pricing, and future deliveries. We understand that retroactive price adjustments are the most important issue and would impact you the greatest. However, the Minerals Management Service (MMS) can not agree that retroactive price adjustments will not occur. We believe we must separate the issue of past pricing from the issue of making future pricing more business-like.

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Sincerely,


Kenneth R. Vogel
Chief, Office of Enforcement

Dennis Cernosek
1940 LA Hwy 1 North
Port Allen, LA 70767

Rob Garner
333 West Center
North Salt Lake, UT 84054

Murray Hetherwick
910 Travis Street
Suite 920
Houston, Texas 77002

William Kitto
2121 Rosecrans Ave.
Suite 2360
El Segundo, CA 90245-4709

Bob Neufeld
1600 Broadway
Suite 2300
Denver, CO 80202

Thomas Sansonetti
Suite 500
2020 Carey Avenue
Cheyenne, WY 82001

Luke Wethers
23733 N. Scottsdale Road
Suite 329
Scottsdale, AZ 85255

Mr. Leo A. Gonzalez
AGE Refining, Inc.
7811 S. Presa
San Antonio, TX 78223
(210) 532-5300
(210) 532-7222 (fax)

March 9, 1998

VIA FAX 303-231-3362

Minerals Management Service
Lakewood, Colorado

Attn: Ken Vogel, Valuation Division

Re: Small Refiner Royalty-in-Kind Program

Dear Ken:

This letter is being sent on behalf of the following four undersigned companies: Gary-Williams Energy Corporation, Giant Refining Company, Calcasieu Refining Company and Placid Refining Company. As you know, each of our four companies is currently a party with the Minerals Management Service to a Contract for the Sale and Purchase of Government Royalty Oil. Each of our contracts was entered into in October, 1994 and is for the purchase of RIK oil being produced from off-shore leases.

We first wanted to thank you for the opportunity which MMS has given us to discuss the problems surrounding royalty valuation issues and to address potential solutions to these issues. Given the controversy surrounding the Wyoming Refining case in particular, and the issue of retroactive pricing in general, we can probably all acknowledge that this is a very difficult issue to resolve, both for industry and the MMS.

In the February 20, 1998 meeting at MMS' offices in Lakewood, Colorado and in conversations between MMS and the small refiners, MMS has stated its desire to negotiate a price formula into all of the small refiner RIK contracts. We certainly agree that price certainty is crucial to the on-going viability of the small refiner RIK program. Price certainty for both past and future deliveries under the RIK contract makes the RIK barrels much more attractive to the small refiner than under the present system, which in turn allows the small refiner to place a higher value on barrels offered by the MMS.

Ken Vogel
Page 2
March 9, 1998

While we welcome the chance to sit down with MMS and renegotiate the pricing provisions of our existing RIK contracts, there are several issues of the utmost importance to the small refiner which must be resolved prior to the small refiner being able to place a value on MMS barrels. Once these issues are resolved, we can place a value on MMS barrels and immediately begin price discussions with the MMS.

Retroactive Pricing

By far the most important issue to the small refiners is the issue of retroactive price adjustments. Prior to commencement of any price renegotiations, the MMS and the small refiners must resolve the issue of retroactive price adjustments. To us, assurance of no retroactive price adjustments is simply a matter of fairness and basic contract interpretation. All four of our companies have paid all amounts invoiced to us by MMS for crude oil purchased under the RIK contracts. To increase the price several years after the purchases were made simply is not fair to the small refiner. One of the principal aspects of the RIK program which allows most small refiners to remain in the program is the right under the RIK contract to terminate deliveries of royalty oil from certain leases. If the small refiner determines that oil from certain RIK leases is uneconomical, the small refiner may terminate deliveries from those leases. The MMS' retroactive pricing policy totally abrogates this contractual right of the small refiner under the RIK contracts. For this contractual provision to have any meaning at all, the MMS should reverse its current pricing policy and ratify the amounts already paid by the small refiners under the current contracts.

Future Deliveries

In addition to retroactive pricing, three other items need to be addressed to make the RIK program more commercial.

1. Price Certainty. The price invoiced to the small refiner must be a final price and not subject to audit by MMS in future years.
2. Letters of Credit. It is assumed, with price certainty, the letter of credit requirement will be reduced. We request that the amount of the letter of credit be calculated on an industry standard of sixty (60) days of crude deliveries.
3. Administrative Fees. We are assuming from the discussions at the February 20, 1998 meeting that the RIK program administrative fees will be lower than under the current program. Please inform us as to what the administrative fees will be for future deliveries.

Ken Vogel
Page 3
March 9, 1998

As stated previously, price certainty on both past and future deliveries as well as smaller letters of credit and lower administration fees, will allow the small refiner to place a higher value on crude oil offered by the MMS. Please respond to these issues as soon as possible, as we are anxious to move forward with price renegotiations under the RIK contract. Once the above issues are settled, we would be able to meet with the MMS either individually or as a group. We look forward to hearing from you.

Very truly yours,

GARY-WILLIAMS ENERGY CORPORATION

A handwritten signature in black ink, appearing to read 'D. A. Hamilton', with a long horizontal stroke extending to the right.

Donald A. Hamilton
Vice President, Raw Material Supply

GIANT REFINING COMPANY

Luke Wethers
Vice President, Raw Material Supply

PLACID REFINING COMPANY

Dennis Cernosek
Manager, Crude Oil Supply

CALCASIEU REFINING COMPANY

Murray Hetherwick
President

Ken Vogel
Page 3
March 9, 1998

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Very truly yours,

GARY-WILLIAMS ENERGY CORPORATION

Donald A. Hamilton
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FLACID REFINING COMPANY

Dennis Cernosek
Manager, Crude Oil Supply

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March 9, 1998

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Very truly yours,


GARY-WILLIAMS ENERGY CORPORATION

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Vice President, Raw Material Supply

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Manager, Crude Oil Supply

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March 9, 1998

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Very truly yours,

GARY-WILLIAMS ENERGY CORPORATION

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PLACID REFINING COMPANY

Dennis Cernosek
Manager, Crude Oil Supply

CALCASIEU REFINING COMPANY


Murray Hetherwick
President

22 Table B out of 156 total AllTableB

All table is
Leases

REFNAME	ONTRAC	Table	LEASE	Oil	DelPoint	Price
Calcasieu Refining Company	94104	B	054-002061-0	LLS	South Bend	X-4, X-5 ↓ ✓
Calcasieu Refining Company	94104	B	054-003147-0	LLS	Erath	
Calcasieu Refining Company	94104	B	054-003596-0	HLS	Grand Isle	
Calcasieu Refining Company	94104	B	054-003605-0	HLS	Grand Isle	
Calcasieu Refining Company	94104	B	054-004254-0	HLS	Grand Isle	
Calcasieu Refining Company	94104	B	054-005286-0	LLS	Gibbstown	
Calcasieu Refining Company	94104	B	054-007917-0	HLS	Grand Isle	
Gary Williams Energy Corp	94106	B	054-004794-0	LLS	South Bend	
Williams Energy Corp	94106	B	054-006668-0	LLS	South Bend	
Williams Energy Corp	94106	B	054-010726-0	LLS	Mobil Burns	
Gary Williams Energy Corp	94106	B	054-011952-0	LLS	Mobil Burns	
Giant Industries Arizona, Inc.	94107	B	054-002047-0	LLS	South Bend	
Giant Industries Arizona, Inc.	94107	B	054-002063-0	LLS	South Bend	
Giant Industries Arizona, Inc.	94107	B	054-002084-0	LLS	South Bend	
Giant Industries Arizona, Inc.	94107	B	054-002893-0	LLS	South Bend	
Giant Industries Arizona, Inc.	94107	B	054-003394-0	LLS	South Bend	
Giant Industries Arizona, Inc.	94107	B	054-003540-0	LLS	South Bend	
Giant Industries Arizona, Inc.	94107	B	054-004453-0	LLS	Sea Robin Ter	
Giant Industries Arizona, Inc.	94107	B	054-005479-0	LLS	South Bend	
Giant Industries Arizona, Inc.	94107	B	054-005541-0	LLS	Cocodrie	
Giant Industries Arizona, Inc.	94107	B	054-008680-0	LLS	Platform off South Bend	
Placid Refining Co.	94112	B	054-009508-0	LLS	South Bend	

① Giant might drop these leases

Gary has dropped 1 and Giant 5 so far (maybe 8 more)

REFNAME	CONTR	LEASE	OIL	DelPoint	Table	Price
Calcasieu Refi	94104	054-003147-0	LLS	Erath	B	
Calcasieu Refi	94104	054-003596-0	HLS	Grand Isle	B	
Calcasieu Refi	94104	054-003605-0	HLS	Grand Isle	B	
Calcasieu Refi	94104	054-004254-0	HLS	Grand Isle	B	
Calcasieu Refi	94104	054-005286-0	LLS	Gibbstown	B	
Calcasieu Refi	94104	054-007917-0	HLS	Grand Isle	B	
Gary Williams	94106	054-010726-0	LLS	Mobil Burns	B	
Gary Williams	94106	054-011952-0	LLS	Mobil Burns	B	

X-4
↓

Don
Gilmartin's
Comments

AMENDMENT TO CONTRACT NUMBER

This Amendment to Contract Number _____ ("Amendment") is made and effective as of the 1st day of August, 1998 ("Effective Date"), by and between the United States of America, Department of the Interior, Minerals Management Service ("MMS") and [name and address of Company] (the "Purchaser").

Recitals

MMS and the Purchaser are parties to a Contract for the Sale and Purchase of Government Royalty Oil, Contract Number _____, dated _____ (the "Contract").

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, MMS and the Purchaser expressly agree to amend the Contract as follows:

Article IV Delivery of Royalty Oil at IV Price
1. All crude oil will be physically delivered by the lessees at ~~MMS's~~ expense to the trading centers identified in Tables A and B for sale by MMS to the Purchaser at such trading centers. Comment: this provision is not consistent with the specific accommodations requested by Calcasieu and apparently agreed to by OE The price for each grade of crude oil will be based on the relevant market prices for the month of delivery and the agreed upon differentials as reflected in Tables A and B. For the purposes of the price formulas in Table A, the following items have the meanings set forth below:

"BS" (Bonito Sour) means the arithmetic average of the high and low price quotes for "Bonito" for Platt's Month of Delivery.

"EDQ" means equal daily quantities.

"EI" (Eugene Island) means the arithmetic average of the high and low price quotes for "Eugene Island" for Platt's Month of Delivery.

"HLS" (Heavy Louisiana Sweet) means the arithmetic average of the high and low price quotes for "HLS" for Platt's Month of Delivery.

"Koch Posting" means Koch Oil Company's posting for West Texas/New Mexico Intermediate, deemed 40 degrees, EDQ for the Physical Month of Delivery.

"Koch UTGC" means Koch Oil Company's posting for Upper Texas Gulf Coast, deemed 40 degrees, EDQ for the Physical Month of Delivery.

"LLS" (Light Louisiana Sweet) means the arithmetic average of the high and low price quotes for "LLS" for Platt's Month of Delivery.

"Physical Month of Delivery" means the calendar month during which the delivery of crude oil occurs.

"Platt's Month of Delivery" means Platt's quotes from the twenty-sixth (26th) day of the month two (2) months prior to the month of delivery through the twenty-fifth (25th) day of the month one month prior to the month of delivery (excluding weekends and holidays).

"P+" (Posting Plus) means the arithmetic average of the high and low price quotes for "P-Plus WTI" for Platt's Month of Delivery.

"Platt's" means Platt's Oilgram Price Report.

"WTI" (West Texas Intermediate) means the arithmetic average of the high and low price quotes for "WTI" for Platt's Month of Delivery.

"WTS" (West Texas Sour) means the arithmetic average of the high and low price quotes for "WTS" for Platt's Month of Delivery.

"UTGC" means Upper Texas Gulf Coast.

TABLE A

<u>Crude Oil Grade</u>	<u>Delivery Point</u>	<u>Price per Barrel</u> <u>(for the Physical Month of Delivery)</u>
Light Louisiana Sweet	St. James, Louisiana	X-5 X-4
Heavy Louisiana Sweet	Empire, Louisiana	
Eugene Island	St. James, Louisiana	

¹ The following provides an example of this price calculation:

X-5,
X-4

<u>Crude Oil Grade</u>	<u>Delivery Point</u>	<u>Price per Barrel</u> <u>(for the Physical Month of Delivery)</u>
Mars Blend	Clovelly, Louisiana	X-5, X-4
Bonito Sour	St. James, Louisiana	
Texas Gulf Coast	Texas City, Texas	

TABLE B

<u>Lease #</u>	<u>Delivery Point</u>	<u>Price per Barrel</u>

2. Prices established pursuant to Tables A and B herein and the other terms and conditions herein will govern the Contract in lieu of any orders, rules, regulations or guidelines now in effect or hereafter issued by MMS. *Comment: This provision is, in my opinion, unnecessarily broad. It establishes the contract modification as the sole guiding criteria for performance and enforcement under the contract to the exclusion of existing orders, rules and regulations. It is my understanding that this contract modification was intended to only change existing valuation provisions and certain audit exposure, not establish a replacement for existing regulations, orders, etc.*

3. While MMS retains the right to adjust the amount of monthly payments due MMS based on audits *Suggested language: and reconciliations* related to volumes taken by the Purchaser, prices established pursuant to Tables A and B herein may not be later adjusted by MMS.

4. Prices established pursuant to Tables A and B herein are intended to apply prospectively as of the Effective Date. MMS may not use the fact of this Amendment to establish retroactive determination of value for any crude oil sold to the Purchaser before the Effective Date of this Amendment, or for any other purpose to seek additional payments from the Purchaser.

5. As of the Effective Date, MMS agrees to hold in abeyance for a period of two years from the Effective Date, any demand letters, invoices, orders or decisions regarding pricing adjustments to amounts due under this Contract for crude oil sold prior to the Effective Date. *Comment: Is this true? First time I have heard of this issue. [MMS*

the Purchaser agrees to sign

3 an MMS talking

at the time

issued by MMS and it

extending the

to suggest preferred tolling language]. MMS and the Purchaser expressly understand and agree that this paragraph 5 shall survive the termination of the Contract.

6. As of the Effective Date, the Purchaser may elect to

(a) apply the balance of the cash surety the Purchaser paid for the first month's royalty oil under the Contract to any outstanding bill issued by MMS pursuant to the Contract up to the amount of the cash surety; or

(b) reduce its letter of credit ("LC") to an amount, calculated by MMS, sufficient to cover the value of sixty-nine (69) days of royalty oil purchases.

Comment: The provisions of Paragraph 6 generally follow the relaxation RMP agreed to earlier with the refiners. However, we need to be sure that we still have a 99 day level of surety coverage remaining. If, for example, a refiner elects to apply (as most have) all of their estimated payment to a current month's RIK invoice, the possibility exists that application of the estimated payment, in its entirety, to a RIK invoice may not leave a 99 day level of coverage. This could happen as a result of the dollar value of the invoice; earlier adjustments to surety levels; or adjustments to lease volumes resulting from prior reallocation of leases. Bottom line: we need to be sure before we sign on the dotted line here.

7. If the Purchaser elects to reduce its LC pursuant to option 6(b) above, MMS will retain the current cash surety balance to pay for royalty oil delivered in the final month of the Contract and MMS will reduce the LC surety amount required under 6(b) by the amount of the cash surety balance retained. *Comment: When must MMS do this?*

8. Upon termination of deliveries of crude oil under the Contract, MMS will reduce the amount of the Purchaser's LC surety requirement in amounts proportionate to payments made by the Purchaser to fulfill payment obligations. Such reductions will occur at the time the Purchaser makes such payments. The Purchaser may not reduce **Suggested** addition: without MMS concurrence the surety to an amount less than *[MMS to insert dollar amount]* which is the amount required to cover the estimated maximum adjustment that will be made to billed volumes following reconciliation, until the Purchaser pays the final bill (post reconciliation).

9. MMS will release the surety in its entirety when the Purchaser has paid all billed amounts up to and including bills issued following final volume reconciliation.

MMS and the Purchaser hereby ratify and confirm the Contract, as Amended hereby, and confirm that all of the other terms and conditions of the Contract not modified by this Amendment shall remain in full force and effect, when not inconsistent with any modification made herein.

In witness whereof the parties have executed this Amendment to Contract _____ as of the Effective Date. MMS expressly acknowledges that this Amendment is made in accordance with approved MMS procedures.

**MINERALS MANAGEMENT
SERVICE**

Vernon B. Ingraham

Chief, Accounting & Reports Division

Royalty Management Program

Date: _____

[COMPANY]

By: _____

Title: _____

Date: _____

MARY 11/10/10
231-3216

Mary and Linda,

With many of your group out of pocket right now, I thought it might be helpful to summarize some of the problems we see in Ken's recent draft of our pending agreement. Some of his changes are of major concern, but given the fact I believe we all have a good understanding of the deal, I am hopeful we have nothing more than a language problem:

*Second paragraph of recitals: replace "modify" with "amend".

*Last sentence in #3: Delete. This sentence does not make any sense at all considering the prior sentence. This is a major concern to us and we do not understand why this sentence was added.

* Paragraph #6: Delete the last four words: "due to this arrangement." We all agree the tolling agreement is for all activity for this contract, not just the amendment. This is also of importance to us and we do not understand why this phrase was inserted. Please also be advised we have not seen the letter agreement that is to be attached.

*Paragraph #4: We recommend the following:

a) South Bend be put on Table A since all of us have South Bend bbls, and it is a common onshore trading point.

B) Paragraph #4 be written as follows:

While MMS retains the right to adjust the amount of monthly payments due MMS based on audits related to volumes taken by the Purchaser, prices established pursuant to Tables A and B herein may not be later adjusted by MMS. For price establishment in Table B, the purchaser agrees to furnish all documentation necessary to justify the price variance from the delivery points in Table B and the delivery points in Table A. This documentation may include location exchange agreements, buy/sell transportation agreements, pipeline tariffs, pipeline statements, gravity/sulfur bank statements, etc. Failure to furnish the MMS with such justification documentation could result in the MMS invoicing the purchaser based on prices established in Table A for like quality crude oil. *differentials.*

Good luck on getting everyone together. I am sure you agree, we all need to get going on this...

Don
628-3800w

AMENDMENT TO CONTRACT NUMBER

This Amendment to Contract Number _____ ("Amendment") is made and effective as of the 1st day of August, 1998 ("Effective Date"), by and between the United States of America, Department of the Interior, Minerals Management Service ("MMS") and [name and address of Company] (the "Purchaser").

Recitals

MMS and the Purchaser are parties to a Contract for the Sale and Purchase of Government Royalty Oil, Contract Number _____, dated _____ (the "Contract").

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, MMS and the Purchaser expressly agree to amend the Contract as follows:

Delete **ARTICLE IV - DELIVERY OF ROYALTY OIL**, paragraphs 1-4 (not numbered in original contract) and replace with numbered paragraph 1.

1. Unless otherwise specified, all ~~oil~~ crude oil will be physically delivered by the lessees at MMS's expense to the trading centers identified in Tables A and B for sale by MMS to the Purchaser at such trading centers. Crude oil specified in Table B will be physically delivered by the lessees at MMS's expense to the specific delivery locations identified in Table B. In either case, the Purchaser will be responsible for transportation from the designated delivery point.

Delete **ARTICLE V - PRICE** and replace with numbered paragraphs 2 through 5 and Tables A and B.

2. The Purchaser agrees to pay for royalty oil subject to this contract in accordance with the following terms. The price for each grade of crude oil will be based on the relevant market prices for the month of delivery and the agreed upon differentials as reflected in Tables A and B. For the purposes of the price formulas in Table A, the following items have the meanings set forth below:
 - a. "BS" (Bonito Sour) means the arithmetic average of the high and low price quotes for "Bonito" for Platt's Month of Delivery.
 - b. "EDQ" means equal daily quantities.
 - c. "EI" (Eugene Island) means the arithmetic average of the high and low price quotes for "Eugene Island" for Platt's Month of Delivery.
 - d. "HLS" (Heavy Louisiana Sweet) means the arithmetic average of the high and low price quotes for "HLS" for Platt's Month of Delivery.

- e. "Koch Posting" means Koch Oil Company's posting for West Texas/New Mexico Intermediate, deemed 40 degrees, EDQ for the Physical Month of Delivery.
 - f. "Koch UTGC" means Koch Oil Company's posting for Upper Texas Gulf Coast, deemed 40 degrees, EDQ for the Physical Month of Delivery.
 - g. "LLS" (Light Louisiana Sweet) means the arithmetic average of the high and low price quotes for "LLS" for Platt's Month of Delivery.
 - h. "Physical Month of Delivery" means the calendar month during which the delivery of crude oil occurs.
 - i. "Platt's Month of Delivery" means Platt's quotes from the twenty-sixth (26th) day of the month two (2) months prior to the month of delivery through the twenty-fifth (25th) day of the month one month prior to the month of delivery (excluding weekends and holidays).
 - j. "P+" (Posting Plus) means the arithmetic average of the high and low price quotes for "P-Plus WTI" for Platt's Month of Delivery.
 - k. "Platt's" means Platt's Oilgram Price Report.
 - l. "WTI" (West Texas Intermediate) means the arithmetic average of the high and low price quotes for "WTI" for Platt's Month of Delivery.
 - m. "WTS" (West Texas Sour) means the arithmetic average of the high and low price quotes for "WTS" for Platt's Month of Delivery.
 - n. "UTGC" means Upper Texas Gulf Coast.
3. Prices established pursuant to Tables A and B herein and the other terms and conditions herein will govern the Contract in lieu of any orders, rules, regulations or guidelines now in effect or hereafter issued by MMS. **Nothing in this Contract shall change the effectiveness of any other order, rule, regulation or guideline.**
 4. While MMS retains the right to adjust the amount of monthly payments due MMS based on audits related to volumes taken by the Purchaser, prices established pursuant to Tables A and B herein may not be later adjusted by MMS. **The price differentials in Table B are based on exchange agreements. The Purchaser agrees to furnish those exchange agreements to MMS before the Effective Date of this Agreement. The Purchaser must furnish new exchange agreements in advance of any change of differentials. Purchaser may not submit adjustments to differentials for production prior to the time the new exchange agreement is furnished to MMS. If the Purchaser fails to furnish the price adjustment prior to its taking effect, MMS may retroactively adjust the price differentials, and bill under the effective exchange agreement, at its sole discretion.**

5. Prices established pursuant to Tables A and B herein are intended to apply prospectively as of the Effective Date. MMS may not use the fact of this Amendment to establish retroactive determination of value for any crude oil sold to the Purchaser before the Effective Date of this Amendment, or for any other purpose to seek additional payments from the Purchaser.

TABLE A		
Crude Oil Grade	Delivery Point	Price per Barrel (for the Physical Month of Delivery)
Light Louisiana Sweet	St. James, Louisiana	X-5, X-4
Heavy Louisiana Sweet	Empire, Louisiana	
Eugene Island	St. James, Louisiana	
Mars Blend	Clovelly, Louisiana	
Bonito Sour	St. James, Louisiana	
Texas Gulf Coast	Texas City, Texas	

The following provides an example of this price calculation:

X-5,
X-4

TABLE B		
Lease #	Delivery Point	Price per Barrel

Insert paragraph 6.

6. ~~As of the Effective Date, MMS agrees to hold in abeyance for a period of two years from the Effective Date, any demand letters, invoices, orders or decisions regarding pricing adjustments to amounts due under this Contract for crude oil sold prior to the Effective Date. [MMS to suggest preferred tolling language]. MMS and the Purchaser expressly understand and agree that this paragraph 5 shall survive the termination of the Contract. Concurrently with the execution of this Agreement, MMS and the Purchaser have agreed by the terms of a letter agreement, which is attached, to hold in abeyance the issuance by the MMS of any enforcement or pre-enforcement and to toll any applicable defenses based on the possible untimeliness of the orders resulting from MMS restraining issue letters, orders or other enforcement documents due to this arrangement.~~

Delete ARTICLE VI - PAYMENTS, second bulleted paragraph and replace with paragraph 7

7. As of the Effective Date, the Purchaser may elect to
- apply the balance of the ~~estimated cash payment surety~~ the Purchaser paid for the first month's royalty oil under the Contract to any outstanding bill issued by MMS pursuant to the Contract up to the amount of the ~~estimated cash payment surety~~, or
 - reduce its letter of credit ("~~LC~~") surety, under ARTICLE X, to an amount, calculated by MMS, sufficient to cover the value of sixty-nine (69) days of royalty oil purchases. ~~If the Purchaser elects to reduce its surety, MMS will retain the current estimated cash payment balance to pay for royalty oil delivered in the final month of the Contract.~~

~~—— If the Purchaser elects to reduce its LC pursuant to option 6(b) above, MMS will retain the current cash surety balance to pay for royalty oil delivered in the final month of the Contract and MMS will reduce the LC surety amount required under 6(b) by the amount of the cash surety balance retained.~~

Insert paragraphs 8 and 9 at end of ARTICLE X

8. Upon termination of deliveries of crude oil under the Contract, MMS will reduce the amount of the Purchaser's LC surety requirement in amounts proportionate to payments made by the Purchaser to fulfill payment obligations. Such reductions will occur at the time the Purchaser makes such

payments. The Purchaser may not reduce the surety to an amount less than the amount that MMS determines ~~[MMS to insert dollar amount]~~, which is the amount required to cover the estimated maximum adjustment that will be made to billed volumes following reconciliation, until the Purchaser pays the final bill (post reconciliation). MMS shall notify the Purchaser of this amount, within 90 days of the end of the month in which deliveries of crude oil under the Contract were terminated.

9. MMS will release the surety in its entirety when the Purchaser has paid all billed amounts up to and including bills issued following final volume reconciliation.

RATIFICATION

10. MMS and the Purchaser hereby ratify and confirm the Contract, as Amended hereby, and confirm that all of the other terms and conditions of the Contract not modified by this Amendment shall remain in full force and effect, when not inconsistent with any modification made herein.
11. In witness whereof the parties have executed this Amendment to Contract as of the Effective Date. MMS expressly acknowledges that this Amendment is made in accordance with approved MMS procedures.

MINERALS MANAGEMENT
SERVICE

PURCHASER

By: _____

By: _____

Vernon B. Ingraham

Chief, Accounting & Reports Division

TITLE

Royalty Management Program

Date: _____

Date: _____

Minerals Management Service
P.O. Box 25165
Bldg. 85, Denver Federal Center
Denver, CO 80225-0165
303-231-3749
Fax: 303-231-3362

FAX COVER SHEET

FAX NUMBER TRANSMITTED TO: ~~303-672-0331~~

628-3828

To: Karol Kahalley
Of: Holland & Hart
From: Kenneth Vogel, Chief Office of Enforcement
Client/Matter: Gary Williams
Date: June 26, 1998

Don Hamilton

I hope this is right

DOCUMENTS	NUMBER OF PAGES*
Changes to paragraph 6 in amended RIK contract	1
Pro forma tolling agreement	10

COMMENTS:

Original will NOT follow.
For your approval/suggestions.
Please respond by Early Monday.

Lucy Querques (MMS Associate Director) and I spoke with Don Hamilton this morning. These changes are based on Lucy's understanding from a meeting attended by Tom S. in April in which it was agreed that the extension of time would be in a separate renewable tolling agreement for six months. I hope Don has let you know this was coming. In the amended RIK contract we have been working on a provision to assure the refiners that we would not soon issue enforcement documents to allow for the forgiveness legislation. The first page shows the old language, with OLD next to it: the refiner's in strikeout and MMS's in redline. The language I have drafted for your review is the bottom with NEW next to it. The pro forma tolling agreement is the second page and it would be an attachment.

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Minerals Management Service
P.O. Box 28166
Bldg. 85, Denver Federal Center
Denver, CO 80225-0166
303-231-3749
Fax: 303-231-3362

FAX COVER SHEET

FAX NUMBER TRANSMITTED TO: 303-628-3828

To: Don Hamilton
Of: Gary-Williams Energy Company
From: Kenneth Vogel
Client/Matter: Agreement
Date: June 29, 1998

DOCUMENTS	NUMBER OF PAGES
Revised Agreement	6

COMMENTS:
Original will NOT follow.
For your approval/suggestions.

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*** SEND SUCCESSFUL ***

Job: 493
Date: JUN-29 12:42
To: 962883828
Doc. pages: 07
Start time: JUN-29 12:42
End time: JUN-29 12:44
Pages sent: 07
Job: 493

Time: JUN-29-98 12:44
Fax number: 3032313362
Name: OE/PSO

CONFIRMATION REPORT - MEMORY SEND

AMENDMENT TO CONTRACT NUMBER

This Amendment to Contract Number _____ ("Amendment") is made and effective as of the 1st day of August, 1998 ("Effective Date"), by and between the United States of America, Department of the Interior, Minerals Management Service ("MMS") and [name and address of Company] (the "Purchaser").

Recitals

MMS and the Purchaser are parties to a Contract for the Sale and Purchase of Government Royalty Oil, Contract Number _____, dated _____ (the "Contract").

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, MMS and the Purchaser expressly agree to amend the Contract as follows:

Delete ARTICLE IV - DELIVERY OF ROYALTY OIL, paragraphs 1-4 (not numbered in original contract) and replace with numbered paragraph 1.

1. Unless otherwise specified, all crude oil will be physically delivered by the lessees at MMS's expense to the trading centers identified in Tables A for sale by MMS to the Purchaser at such trading centers. Crude oil specified in Table B will be physically delivered by the lessees at MMS's expense to the specific delivery locations identified in Table B. In either case, the Purchaser will be responsible for transportation from the designated delivery point.

Delete ARTICLE V - PRICE and replace with numbered paragraphs 2 through 5 and Tables A and B.

2. The Purchaser agrees to pay for royalty oil subject to this contract in accordance with the following terms. The price for each grade of crude oil will be based on the relevant market prices for the month of delivery and the agreed upon differentials as reflected in Tables A and B. For the purposes of the price formulas in Table A, the following items have the meanings set forth below:
 - a. "BS" (Bonito Sour) means the arithmetic average of the high and low price quotes for "Bonito" for Platt's Month of Delivery.
 - b. "EDQ" means equal daily quantities.
 - c. "EI" (Eugene Island) means the arithmetic average of the high and low price quotes for "Eugene Island" for Platt's Month of Delivery.
 - d. "HLS" (Heavy Louisiana Sweet) means the arithmetic average of the high and low price quotes for "HLS" for Platt's Month of Delivery.

- e. **"Koch Posting"** means Koch Oil Company's posting for West Texas/New Mexico Intermediate, deemed 40 degrees, EDQ for the Physical Month of Delivery.
 - f. **"Koch UTGC"** means Koch Oil Company's posting for Upper Texas Gulf Coast, deemed 40 degrees, EDQ for the Physical Month of Delivery.
 - g. **"LLS"** (Light Louisiana Sweet) means the arithmetic average of the high and low price quotes for "LLS" for Platt's Month of Delivery.
 - h. **"Physical Month of Delivery"** means the calendar month during which the delivery of crude oil occurs.
 - i. **"Platt's Month of Delivery"** means Platt's quotes from the twenty-sixth (26th) day of the month two (2) months prior to the month of delivery through the twenty-fifth (25th) day of the month one month prior to the month of delivery (excluding weekends and holidays).
 - j. **"P+" (Posting Plus)** means the arithmetic average of the high and low price quotes for "P-Plus WTI" for Platt's Month of Delivery.
 - k. **"Platt's"** means Platt's Oilgram Price Report.
 - l. **"WTI"** (West Texas Intermediate) means the arithmetic average of the high and low price quotes for "WTI" for Platt's Month of Delivery.
 - m. **"WTS"** (West Texas Sour) means the arithmetic average of the high and low price quotes for "WTS" for Platt's Month of Delivery.
 - n. **"UTGC"** means Upper Texas Gulf Coast.
3. Prices and delivery points established pursuant to Tables A and B herein and the other terms and conditions herein will govern the Contract in lieu of any orders, rules, regulations or guidelines now in effect or hereafter issued by MMS which would otherwise apply regarding the setting of prices or delivery points.
 4. While MMS retains the right to adjust the amount of monthly payments due MMS based on audits related to volumes taken by the Purchaser, prices established pursuant to Tables A and B herein may not be later adjusted by MMS. For price differentials in Table B, the Purchaser agrees to furnish all documentation necessary to justify the price differentials (between the delivery points in Table B and those specified in Table A). This documentation may include location exchange agreements, buy/sell transportation agreements, pipeline tariffs, pipeline statements, gravity/sulfur back statements, etc.. Failure to furnish the MMS with such documentation could result in the MMS invoicing the Purchaser based on the

prices established in Table A for like quality crude oil, with no adjustment for location, at MMS's sole discretion.

5. Prices established pursuant to Tables A and B herein are intended to apply prospectively as of the Effective Date. MMS may not use the fact of this Amendment to establish retroactive determination of value for any crude oil sold to the Purchaser before the Effective Date of this Amendment, or for any other purpose to seek additional payments from the Purchaser.

TABLE A		
<u>Crude Oil Grade</u>	<u>Delivery Point</u>	<u>Price per Barrel</u> <u>(for the Physical Month of Delivery)</u>
Light Louisiana Sweet	St. James, Louisiana	X-5, X-4
Light Louisiana Sweet	South Bend, Louisiana	
Heavy Louisiana Sweet	Empire, Louisiana	
Eugene Island	St. James, Louisiana	
Mars Blend	Clovelly, Louisiana	
Bonito Sour	St. James, Louisiana	
Texas Gulf Coast	Texas City, Texas	

The following provides an example of this price calculation:

X-5,
X-4

TABLE B		
Lease #	Delivery Point	Price per Barrel

Insert paragraph 6.

6. MMS agrees that it will not issue any demand letters, bills, invoices, orders or decisions regarding price related adjustments to amounts due under this Contract for crude oil sold prior to the Effective Date unless it has previously sent an Issue Letter, setting out any potential alleged price related adjustments for comment by Purchaser. Such an Issue Letter will not be issued prior to December 1, 1998. If MMS sends an Issue Letter, it will attach an agreement (*pro forma* agreement attached) to toll the issuance of any enforcement actions by MMS and any Statute of Limitations defense by Purchaser for a period of not less than one year from the date of the Issue Letter. MMS and the Purchaser expressly understand and agree that this paragraph shall survive the termination of the Contract.
7. Delete ARTICLE VI - PAYMENTS, second bulleted paragraph and replace with paragraph 7
8. As of the Effective Date, the Purchaser may elect to
 - a. apply the balance of the estimated cash payment the Purchaser paid for the first month's royalty oil under the Contract to any outstanding bill issued by MMS pursuant to the Contract up to the amount of the estimated cash payment; or
 - b. reduce surety, under ARTICLE X, to an amount, calculated by MMS, sufficient to cover the value of sixty-nine (69) days of royalty oil purchases. If the Purchaser elects to reduce its surety, MMS will retain the current estimated cash payment balance to pay for royalty oil delivered in the final month of the Contract.

Insert paragraphs 8 and 9 at end of ARTICLE X

9. Upon termination of deliveries of crude oil under the Contract, MMS will reduce the amount of the Purchaser's LC surety requirement in amounts proportionate to payments made by the Purchaser to fulfill payment obligations. Such reductions will occur at the time the Purchaser makes such payments. The Purchaser may not reduce the surety to an amount less than the amount that MMS determines, which is the amount required to

cover the estimated maximum adjustment that will be made to billed volumes following reconciliation, until the Purchaser pays the final bill (post reconciliation). MMS shall notify the Purchaser of this amount, within 90 days of the end of the month in which deliveries of crude oil under the Contract were terminated.

10. MMS will release the surety in its entirety when the Purchaser has paid all billed amounts up to and including bills issued following final volume reconciliation.

RATIFICATION

11. MMS and the Purchaser hereby ratify and confirm the Contract, as Amended hereby, and confirm that all of the other terms and conditions of the Contract not modified by this Amendment shall remain in full force and effect, when not inconsistent with any modification made herein.
12. In witness whereof the parties have executed this Amendment to Contract as of the Effective Date. MMS expressly acknowledges that this Amendment is made in accordance with approved MMS procedures.

MINERALS MANAGEMENT
SERVICE

PURCHASER

By: _____

Vernon B. Ingraham

Chief, Accounting & Reports Division

Royalty Management Program

By: _____

TITLE

Date: _____

Date: _____

TOLLING AGREEMENT

To avoid unnecessary administrative and judicial litigation, and to allow the Department of the Interior, through the Minerals Management Service (MMS) and the *PURCHASER* to review the facts and to present the issues fully and fairly, and to allow for potential legislation, which would forgive some or all potential liability by small refiners for underpayments that MMS believes have been made, the MMS agrees to forbear the issuance of any enforcement actions for a period of one year from the date this agreement is signed. In return, *PURCHASER* agrees that it will not assert as a defense to any claims, associated with the attached issue letter, by the Minerals Management Service (MMS) for underpaid royalties, late payment interest, or civil penalty that the limitation period under any applicable statute of limitations was running from the date of execution of this agreement until the date of termination of this agreement. *PURCHASER* further waives any defense of laches which it might otherwise assert with respect to that period.

Through this agreement, neither MMS nor *PURCHASER* waives any other rights, claims, or defenses.

PURCHASER

Minerals Management Service

BY: _____

By: _____

TITLE

TITLE

DATE: _____

DATE: _____

Paragraph 6:

OLD

~~MMS agrees to hold in abeyance for a period of two years from the Effective Date, any demand letters, invoices, orders or decisions regarding pricing adjustments to amounts due under this Contract for crude oil sold prior to the Effective Date. [MMS to suggest preferred tolling language]. MMS and the Purchaser expressly understand and agree that this paragraph 5 shall survive the termination of the Contract. Concurrently with the execution of this Agreement, MMS and the Purchaser have agreed by the terms of a letter agreement, which is attached, to hold in abeyance the issuance by the MMS of any enforcement or pre-enforcement and to toll any applicable defenses based on the possible untimeliness of the orders resulting from MMS restraining issue letters, orders or other enforcement documents due to this arrangement.~~

NEW

MMS agrees that it will not issue any demand letters, bills, invoices, orders or decisions regarding price related adjustments to amounts due under this Contract for crude oil sold prior to the Effective Date unless it has previously sent an Issue Letter, setting out any potential alleged price related adjustments for comment by Purchaser. Such an Issue Letter will not be issued prior to December 1, 1998. If MMS sends an Issue Letter, it will attach an agreement (*pro forma* agreement attached) to toll the issuance of any enforcement actions by MMS and any Statute of Limitations defense by Purchaser for a period of not less than six months from the date of the Issue Letter. MMS and the Purchaser expressly understand and agree that this paragraph shall survive the termination of the Contract

TOLLING AGREEMENT

To avoid unnecessary administrative and judicial litigation, and to allow the Department of the Interior, through the Minerals Management Service (MMS) and the Gary-Williams Energy Corporation to review the facts and to present the issues fully and fairly, and to allow for potential legislation, which would forgive some or all potential liability by small refiners for underpayments that MMS believes have been made, the MMS agrees to forbear the issuance of any enforcement actions for a period of six months from the date this agreement is signed. In return, Gary-Williams Energy Corporation agrees that it will not assert as a defense to any claims, associated with the attached issue letter, by the Minerals Management Service (MMS) for underpaid royalties, late payment interest, or civil penalty that the limitation period under any applicable statute of limitations was running from the date of execution of this agreement until the date of termination of this agreement. Gary-Williams Energy Corporation further waives any defense of laches which it might otherwise assert with respect to that period.

Through this agreement, neither MMS nor Gary-Williams Energy Corporation waives any other rights, claims, or defenses.

Gary-Williams Energy Corporation

Minerals Management Service

BY: _____

By: _____

TITLE

TITLE

DATE: _____

DATE: _____

Comments
G. Smith

Minerals Management Service

P.O. Box 25165
Bldg. 85, Denver Federal Center
Denver, CO 80225-0165
303-231-3749
Fax: 303-231-3362

FAX COVER SHEET

FAX NUMBER TRANSMITTED TO: 303-628-3828

To: Don Hamilton
Of: Gary-Williams Energy Company
From: Kenneth Vogel
Client/Matter: Agreement
Date: June 29, 1998

DOCUMENTS	NUMBER OF PAGES*
Revised Agreement	6

COMMENTS:

Original will NOT follow.
For your approval/suggestions.

The information contained in this facsimile message is information protected by attorney-client and/or the attorney/work product privilege. It is intended only for the use of the individual named above and the privileges are not waived by virtue of this having been sent by facsimile. If the person actually receiving this facsimile or any other reader of the facsimile is not the named recipient or the employee or agent responsible to deliver it to the named recipient, any use, dissemination, distribution, or copying of the communication is strictly prohibited. If you have received this communication in error, please immediately notify us by telephone and return the original message to us at the above address via U.S. Postal Service.

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AMENDMENT TO CONTRACT NUMBER

This Amendment to Contract Number _____ ("Amendment") is made and effective as of the 1st day of August, 1998 ("Effective Date"), by and between the United States of America, Department of the Interior, Minerals Management Service ("MMS") and [name and address of Company] (the "Purchaser").

Recitals

MMS and the Purchaser are parties to a Contract for the Sale and Purchase of Government Royalty Oil, Contract Number _____, dated _____ (the "Contract").

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, MMS and the Purchaser expressly agree to modify the Contract as follows:

Delete ARTICLE IV - DELIVERY OF ROYALTY OIL, paragraphs 1-4 (not numbered in original contract) and replace with numbered paragraph 1.

1. Unless otherwise specified, all crude oil will be physically delivered by the lessees at MMS's expense to the trading centers identified in Tables A for sale by MMS to the Purchaser at such trading centers. Crude oil specified in Table B will be physically delivered by the lessees at MMS's expense to the specific delivery locations identified in Table B. In either case, the Purchaser will be responsible for transportation from the designated delivery point.

Delete ARTICLE V - PRICE and replace with numbered paragraphs 2 through 5 and Tables A and B.

2. The Purchaser agrees to pay for royalty oil subject to this contract in accordance with the following terms. The price for each grade of crude oil will be based on the relevant market prices for the month of delivery and the agreed upon differentials as reflected in Tables A and B. For the purposes of the price formulas in Table A, the following items have the meanings set forth below:
 - a. "BS" (Bonito Sour) means the arithmetic average of the high and low price quotes for "Bonito" for Platt's Month of Delivery.
 - b. "EDQ" means equal daily quantities.
 - c. "EI" (Eugene Island) means the arithmetic average of the high and low price quotes for "Eugene Island" for Platt's Month of Delivery.
 - d. "HLS" (Heavy Louisiana Sweet) means the arithmetic average of the high and low price quotes for "HLS" for Platt's Month of Delivery.

retroactively adjust the price differentials, and bill under the effective exchange agreement, at its sole discretion.

5. Prices established pursuant to Tables A and B herein are intended to apply prospectively as of the Effective Date. MMS may not use the fact of this Amendment to establish retroactive determination of value for any crude oil sold to the Purchaser before the Effective Date of this Amendment, or for any other purpose to seek additional payments from the Purchaser.

TABLE A		
Crude Oil Grade	Delivery Point	Price per Barrel (for the Physical Month of Delivery)
Light Louisiana Sweet	St. James, Louisiana	X-5, X-4 ✓
Light Louisiana Sweet	South Bend, Louisiana	
Heavy Louisiana Sweet	Empire, Louisiana	
Eugene Island	St. James, Louisiana	
Mars Blend	Clovelly, Louisiana	
Bonito Sour	St. James, Louisiana	
	, Texas	

Need Doc for S Bend
~~6-1-23~~

his price calculation:

X-5,
X-4 ✓

- e. "Koch Posting" means Koch Oil Company's posting for West Texas/New Mexico Intermediate, deemed 40 degrees, EDQ for the Physical Month of Delivery.
 - f. "Koch UTGC" means Koch Oil Company's posting for Upper Texas Gulf Coast, deemed 40 degrees, EDQ for the Physical Month of Delivery.
 - g. "LLS" (Light Louisiana Sweet) means the arithmetic average of the high and low price quotes for "LLS" for Platt's Month of Delivery.
 - h. "Physical Month of Delivery" means the calendar month during which the delivery of crude oil occurs.
 - i. "Platt's Month of Delivery" means Platt's quotes from the twenty-sixth (26th) day of the month two (2) months prior to the month of delivery through the twenty-fifth (25th) day of the month one month prior to the month of delivery (excluding weekends and holidays).
 - j. "P+" (Posting Plus) means the arithmetic average of the high and low price quotes for "P-Plus WTI" for Platt's Month of Delivery.
 - k. "Platt's" means Platt's Oilgram Price Report.
 - l. "WTI" (West Texas Intermediate) means the arithmetic average of the high and low price quotes for "WTI" for Platt's Month of Delivery.
 - m. "WTS" (West Texas Sour) means the arithmetic average of the high and low price quotes for "WTS" for Platt's Month of Delivery.
 - n. "UTGC" means Upper Texas Gulf Coast.
3. Prices established pursuant to Tables A and B herein and the other terms and conditions herein will govern the Contract in lieu of any orders, rules, regulations or guidelines now in effect or hereafter issued by MMS. ~~Nothing in this Contract shall change the effectiveness of any other order, rule, regulation or guideline.~~
4. While MMS retains ^{contract renegotiation} the right to adjust the amount of monthly payments due MMS based on audits related to volumes taken by the Purchaser, prices established pursuant to Tables A and B herein may not be later adjusted by MMS. The price differentials in Table B are based on exchange agreements. The Purchaser agrees to furnish these exchange agreements to MMS before the Effective Date of this Agreement. ~~The Purchaser must furnish new exchange agreements in advance of any change of differentials. Purchaser may not submit adjustments to differentials for production prior to the time the new exchange agreement is furnished to MMS. If the Purchaser fails to furnish the price adjustment prior to its taking effect, MMS may~~

Buy/Sell Transp
 1. 2. 3. 4. 5. 6. 7. 8. 9. 10.
 11. 12. 13. 14. 15. 16. 17. 18. 19. 20.
 21. 22. 23. 24. 25. 26. 27. 28. 29. 30.
 31. 32. 33. 34. 35. 36. 37. 38. 39. 40.

TABLE B		
Lease #	Delivery Point	Price per Barrel

Insert paragraph 6.

6. MMS agrees that it will not issue any demand letters, bills, invoices, orders or decisions regarding price related adjustments to amounts due under this Contract for crude oil sold prior to the Effective Date unless it has previously sent an Issue Letter, setting out any potential alleged price related adjustments for comment by Purchaser. Such an Issue Letter will not be issued prior to December 1, 1998. If MMS sends an Issue Letter, it will attach an agreement (*pro forma* agreement attached) to toll the issuance of any enforcement actions by MMS and any Statute of Limitations defense by Purchaser for a period of not less than six months from the date of the Issue Letter. MMS and the Purchaser expressly understand and agree that this paragraph shall survive the termination of the Contract

7. Delete ARTICLE VI - PAYMENTS, second bulleted paragraph and replace with paragraph 7 — *where is paragraph 7?*

8. As of the Effective Date, the Purchaser may elect to

- apply the balance of the estimated cash payment, the Purchaser paid ~~for the first month's royalty oil~~ under the Contract to any outstanding bill issued by MMS pursuant to the Contract up to the amount of the estimated cash payment; or
- reduce, surety, under ARTICLE X, to an amount, calculated by MMS, sufficient to cover the value of sixty-nine (69) days of royalty oil purchases. If the Purchaser elects to reduce its surety, MMS will retain the current estimated cash payment balance to pay for royalty oil delivered in the final month of the Contract. *Letter of Audit (LC)*

Insert paragraphs 8 and 9 at end of ARTICLE X

9. Upon termination of deliveries of crude oil under the Contract, MMS will reduce the amount of the Purchaser's LC surety requirement in amounts proportionate to payments made by the Purchaser to fulfill payment obligations. Such reductions will occur at the time the Purchaser makes such payments. The Purchaser may not reduce the surety to an amount less than the amount that MMS determines, which is the amount required to cover the estimated maximum adjustment that will be made to billed *LC*

(B) estimate 4

volumes following reconciliation, until the Purchaser pays the final bill (post reconciliation). MMS shall notify the Purchaser of this amount, within 90 days of the end of the month in which deliveries of crude oil under the Contract were terminated.

10. MMS will release the surety in its entirety when the Purchaser has paid all billed amounts up to and including bills issued following final volume reconciliation.

RATIFICATION

11. MMS and the Purchaser hereby ratify and confirm the Contract, as Amended hereby, and confirm that all of the other terms and conditions of the Contract not modified by this Amendment shall remain in full force and effect, when not inconsistent with any modification made herein.
12. In witness whereof the parties have executed this Amendment to Contract as of the Effective Date. MMS expressly acknowledges that this Amendment is made in accordance with approved MMS procedures.

MINERALS MANAGEMENT
SERVICE

PURCHASER

By: _____

Vernon B. Ingraham

Chief, Accounting & Reports Division
Royalty Management Program

By: _____

TITLE

Date: _____

Date: _____

TOLLING AGREEMENT

To avoid unnecessary administrative and judicial litigation, and to allow the Department of the Interior, through the Minerals Management Service (MMS) and the Gary-Williams Energy Corporation to review the facts and to present the issues fully and fairly, and to allow for potential legislation, which would forgive some or all potential liability by small refiners for underpayments that MMS believes have been made, the MMS agrees to forbear the issuance of any enforcement actions for a period of six months from the date this agreement is signed. In return, Gary-Williams Energy Corporation agrees that it will not assert as a defense to any claims, associated with the attached issue letter, by the Minerals Management Service (MMS) for underpaid royalties, late payment interest, or civil penalty that the limitation period under any applicable statute of limitations was running from the date of execution of this agreement until the date of termination of this agreement. Gary-Williams Energy Corporation further waives any defense of laches which it might otherwise assert with respect to that period.

Through this agreement, neither MMS nor Gary-Williams Energy Corporation waives any other rights, claims, or defenses.

Gary-Williams Energy Corporation

Minerals Management Service

BY: _____

By: _____

TITLE

TITLE

DATE: _____

DATE: _____

AMENDMENT TO CONTRACT NUMBER

This Amendment to Contract Number _____ ("Amendment") is made and effective as of the 1st day of August, 1998 ("Effective Date"), by and between the United States of America, Department of the Interior, Minerals Management Service ("MMS") and [name and address of Company] (the "Purchaser").

Recitals

MMS and the Purchaser are parties to a Contract for the Sale and Purchase of Government Royalty Oil, Contract Number _____, dated _____ (the "Contract").

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, MMS and the Purchaser expressly agree to modify amend the Contract as follows:

Delete **ARTICLE IV - DELIVERY OF ROYALTY OIL**, paragraphs 1-4 (not numbered in original contract) and replace with numbered paragraph 1.

1. Unless otherwise specified, all ~~all~~ crude oil will be physically delivered by the lessees at MMS's expense to the trading centers identified in Tables A and ~~B~~ for sale by MMS to the Purchaser at such trading centers. Crude oil specified in Table B will be physically delivered by the lessees at MMS's expense to the specific delivery locations identified in Table B. In either case, the Purchaser will be responsible for transportation from the designated delivery point.

Delete **ARTICLE V - PRICE** and replace with numbered paragraphs 2 through 5 and Tables A and B.

2. The Purchaser agrees to pay for royalty oil subject to this contract in accordance with the following terms. The price for each grade of crude oil will be based on the relevant market prices for the month of delivery and the agreed upon differentials as reflected in Tables A and B. For the purposes of the price formulas in Table A, the following items have the meanings set forth below:
 - a. "BS" (Bonito Sour) means the arithmetic average of the high and low price quotes for "Bonito" for Platt's Month of Delivery.
 - b. "EDQ" means equal daily quantities.
 - c. "EI" (Eugene Island) means the arithmetic average of the high and low price quotes for "Eugene Island" for Platt's Month of Delivery.
 - d. "HLS" (Heavy Louisiana Sweet) means the arithmetic average of the high and low price quotes for "HLS" for Platt's Month of Delivery.

OPTIONAL FORM 99 (7-90)

FAX TRANSMITTAL

of pages 5

To Don Hamilton

From Ben Vogt

- e. **"Koch Posting"** means Koch Oil Company's posting for West Texas/New Mexico Intermediate, deemed 40 degrees, EDQ for the Physical Month of Delivery.
 - f. **"Koch UTGC"** means Koch Oil Company's posting for Upper Texas Gulf Coast, deemed 40 degrees, EDQ for the Physical Month of Delivery.
 - g. **"LLS"** (Light Louisiana Sweet) means the arithmetic average of the high and low price quotes for "LLS" for Platt's Month of Delivery.
 - h. **"Physical Month of Delivery"** means the calendar month during which the delivery of crude oil occurs.
 - i. **"Platt's Month of Delivery"** means Platt's quotes from the twenty-sixth (26th) day of the month two (2) months prior to the month of delivery through the twenty-fifth (25th) day of the month one month prior to the month of delivery (excluding weekends and holidays).
 - j. **"P+" (Posting Plus)** means the arithmetic average of the high and low price quotes for "P-Plus WTI" for Platt's Month of Delivery.
 - k. **"Platt's"** means Platt's Oilgram Price Report.
 - l. **"WTI"** (West Texas Intermediate) means the arithmetic average of the high and low price quotes for "WTI" for Platt's Month of Delivery.
 - m. **"WTS"** (West Texas Sour) means the arithmetic average of the high and low price quotes for "WTS" for Platt's Month of Delivery.
 - n. **"UTGC"** means Upper Texas Gulf Coast.
3. Prices established pursuant to Tables A and B herein and the other terms and conditions herein will govern the Contract in lieu of any orders, rules, regulations or guidelines now in effect or hereafter issued by MMS. Nothing in this Contract shall change the effectiveness of any other order, rule, regulation or guideline.
 4. While MMS retains the right to adjust the amount of monthly payments due MMS based on audits related to volumes taken by the Purchaser, prices established pursuant to Tables A and B herein may not be later adjusted by MMS. The price differentials in Table B are based on exchange agreements. The Purchaser agrees to furnish those exchange agreements to MMS before the Effective Date of this Agreement. The Purchaser must furnish new exchange agreements in advance of any change of differentials. Purchaser may not submit adjustments to differentials for production prior to the time the new exchange agreement is furnished to MMS. If the Purchaser fails to furnish the price adjustment prior to its taking effect, MMS may

retroactively adjust the price differentials, and bill under the effective exchange agreement, at its sole discretion.

5. Prices established pursuant to Tables A and B herein are intended to apply prospectively as of the Effective Date. MMS may not use the fact of this Amendment to establish retroactive determination of value for any crude oil sold to the Purchaser before the Effective Date of this Amendment, or for any other purpose to seek additional payments from the Purchaser.

TABLE A		
Crude Oil Grade	Delivery Point	Price per Barrel (for the Physical Month of Delivery)
Light Louisiana Sweet	St. James, Louisiana	X-5, ✓ X-4 /
Heavy Louisiana Sweet	Empire, Louisiana	
Eugene Island	St. James, Louisiana	
Mars Blend	Clovelly, Louisiana	
Bonito Sour	St. James, Louisiana	
Texas Gulf Coast	Texas City, Texas	

The following provides an example of this price calculation:

X-5,
X-4

TABLE B		
Lease #	Delivery Point	Price per Barrel

Insert paragraph 6.

6. ~~As of the Effective Date, MMS agrees to hold in abeyance for a period of two years from the Effective Date, any demand letters, invoices, orders or decisions regarding pricing adjustments to amounts due under this Contract for crude oil sold prior to the Effective Date. [MMS to suggest preferred tolling language]. MMS and the Purchaser expressly understand and agree that this paragraph 5 shall survive the termination of the Contract.~~ Concurrently with the execution of this Agreement, MMS and the Purchaser have agreed by the terms of a letter agreement, which is attached, to hold in abeyance the issuance by the MMS of any enforcement or pre-enforcement and to toll any applicable defenses based on the possible untimeliness of the orders resulting from MMS restraining issue letters, orders or other enforcement documents due to this arrangement.

Delete ARTICLE VI - PAYMENTS, second bulleted paragraph and replace with paragraph 7

7. As of the Effective Date, the Purchaser may elect to
- apply the balance of the estimated cash payment ~~surety~~ the Purchaser paid for the first month's royalty oil under the Contract to any outstanding bill issued by MMS pursuant to the Contract up to the amount of the estimated cash payment ~~surety~~; or
 - reduce its ~~letter of credit ("LC")~~ surety, under ARTICLE X, to an amount, calculated by MMS, sufficient to cover the value of sixty-nine (69) days of royalty oil purchases. If the Purchaser elects to reduce its surety, MMS will retain the current estimated cash payment balance to pay for royalty oil delivered in the final month of the Contract.

~~—— If the Purchaser elects to reduce its LC pursuant to option 6(b) above, MMS will retain the current cash surety balance to pay for royalty oil delivered in the final month of the Contract and MMS will reduce the LC surety amount required under 6(b) by the amount of the cash surety balance retained.~~

Insert paragraphs 8 and 9 at end of ARTICLE X

8. Upon termination of deliveries of crude oil under the Contract, MMS will reduce the amount of the Purchaser's LC surety requirement in amounts

proportionate to payments made by the Purchaser to fulfill payment obligations. Such reductions will occur at the time the Purchaser makes such payments. The Purchaser may not reduce the surety to an amount less than the amount that MMS determines~~[MMS to insert dollar amount]~~, which is the amount required to cover the estimated maximum adjustment that will be made to billed volumes following reconciliation, until the Purchaser pays the final bill (post reconciliation). MMS shall notify the Purchaser of this amount, within 90 days of the end of the month in which deliveries of crude oil under the Contract were terminated.

9. MMS will release the surety in its entirety when the Purchaser has paid all billed amounts up to and including bills issued following final volume reconciliation.

RATIFICATION

10. MMS and the Purchaser hereby ratify and confirm the Contract, as Amended hereby, and confirm that all of the other terms and conditions of the Contract not modified by this Amendment shall remain in full force and effect, when not inconsistent with any modification made herein.
11. In witness whereof the parties have executed this Amendment to Contract as of the Effective Date. MMS expressly acknowledges that this Amendment is made in accordance with approved MMS procedures.

MINERALS MANAGEMENT
SERVICE

PURCHASER

By: _____

By: _____

Vernon B. Ingraham

Chief, Accounting & Reports Division

TITLE

Royalty Management Program

Date: _____

Date: _____

AMENDMENT TO CONTRACT NUMBER

This Amendment to Contract Number _____ ("Amendment") is made and effective as of the 1st day of August, 1998 ("Effective Date"), by and between the United States of America, Department of the Interior, Minerals Management Service ("MMS") and [name and address of Company] (the "Purchaser").

Recitals

MMS and the Purchaser are parties to a Contract for the Sale and Purchase of Government Royalty Oil, Contract Number _____, dated _____ (the "Contract").

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, MMS and the Purchaser expressly agree to amend the Contract as follows:

Delete **ARTICLE IV - DELIVERY OF ROYALTY OIL**, paragraphs 1-4 (not numbered in original contract) and replace with numbered paragraph 1.

1. Unless otherwise specified, all crude oil will be physically delivered by the lessees at MMS's expense to the trading centers identified in Table A for sale by MMS to the Purchaser at such trading centers. Crude oil specified in Table B will be physically delivered by the lessees at MMS's expense to the specific delivery locations identified in Table B. In either case, the Purchaser will be responsible for transportation from the designated delivery point. ✓

Delete **ARTICLE V - PRICE** and replace with numbered paragraphs 2 through 5 and Tables A and B.

2. The Purchaser agrees to pay for royalty oil subject to this contract in accordance with the following terms. The price for each grade of crude oil will be based on the relevant market prices for the month of delivery and the agreed upon differentials as reflected in Tables A and B. For the purposes of the price formulas in Table A, the following items have the meanings set forth below:
 - a. "**BS**" (Bonito Sour) means the arithmetic average of the high and low price quotes for "Bonito" for Platt's Month of Delivery.
 - b. "**EDO**" means equal daily quantities.
 - c. "**EI**" (Eugene Island) means the arithmetic average of the high and low price quotes for "Eugene Island" for Platt's Month of Delivery.
 - d. "**HLS**" (Heavy Louisiana Sweet) means the arithmetic average of the high and low price quotes for "HLS" for Platt's Month of Delivery.

- e. "Koch Posting" means Koch Oil Company's posting for West Texas/New Mexico Intermediate, deemed 40 degrees, EDQ for the Physical Month of Delivery.
 - f. "Koch UTGC" means Koch Oil Company's posting for Upper Texas Gulf Coast, deemed 40 degrees, EDQ for the Physical Month of Delivery.
 - g. "LLS" (Light Louisiana Sweet) means the arithmetic average of the high and low price quotes for "LLS" for Platt's Month of Delivery.
 - h. "Physical Month of Delivery" means the calendar month during which the delivery of crude oil occurs.
 - i. "Platt's Month of Delivery" means Platt's quotes from the twenty-sixth (26th) day of the month two (2) months prior to the month of delivery through the twenty-fifth (25th) day of the month one month prior to the month of delivery (excluding weekends and holidays).
 - j. "P+" (Posting Plus) means the arithmetic average of the high and low price quotes for "P-Plus WTI" for Platt's Month of Delivery.
 - k. "Platt's" means Platt's Oilgram Price Report.
 - l. "WTI" (West Texas Intermediate) means the arithmetic average of the high and low price quotes for "WTI" for Platt's Month of Delivery.
 - m. "WTS" (West Texas Sour) means the arithmetic average of the high and low price quotes for "WTS" for Platt's Month of Delivery.
 - n. "UTGC" means Upper Texas Gulf Coast.
3. Prices and delivery points established pursuant to Tables A and B herein and the other terms and conditions herein will govern the Contract in lieu of any orders, rules, regulations or guidelines now in effect or hereafter issued by MMS, which would otherwise apply regarding the setting of prices or delivery points, or the other terms and conditions herein. ✓
4. *contract reconciliation on* While MMS retains the right to adjust the amount of monthly payments due MMS based on audits related to volumes taken by the Purchaser, prices established pursuant to Tables A and B herein may not be later adjusted by MMS. For price differentials in Table B, the Purchaser agrees to furnish all documentation necessary to justify the price differentials (between the delivery points in Table B and those specified in Table A). This documentation may include location exchange agreements, buy/sell transportation agreements, pipeline tariffs, pipeline statements, gravity/sulfur back statements, etc.. Failure to furnish the MMS with such documentation could result in the MMS invoicing the Purchaser based on the ✓

prices established in Table A for like quality crude oil, with no adjustment for location, at MMS's sole discretion.

5. Prices established pursuant to Tables A and B herein are intended to apply prospectively as of the Effective Date. MMS may not use the fact of this Amendment to establish retroactive determination of value for any crude oil sold to the Purchaser before the Effective Date of this Amendment, or for any other purpose to seek additional payments from the Purchaser.

TABLE A		
<u>Crude Oil Grade</u>	<u>Delivery Point</u>	<u>Price per Barrel</u> <u>(for the Physical Month of Delivery)</u>
Light Louisiana Sweet	St. James, Louisiana	X-5, X-4
Light Louisiana Sweet	South Bend, Louisiana	
Heavy Louisiana Sweet	Empire, Louisiana	
Eugene Island	St. James, Louisiana	
Mars Blend	Clovelly, Louisiana	
Bonito Sour	St. James, Louisiana	
Texas Gulf Coast	Texas City, Texas	

The following provides an example of this price calculation:

X-5,
X-4

TABLE B		
Lease #	Delivery Point	Price per Barrel

Insert paragraph 6.

6. MMS agrees that it will not issue any enforcement actions (e.g., demand letters, bills, invoices, orders or decisions) regarding price related adjustments to amounts due under this Contract for crude oil sold prior to the Effective Date unless it has previously sent an Issue Letter, setting out any potential alleged price related adjustments for comment by Purchaser. Such an Issue Letter will not be issued prior to December 1, 1998. If MMS sends an Issue Letter, it will attach an agreement (*pro forma* agreement attached) to toll the issuance of any enforcement actions by MMS and any Statute of Limitations defense by Purchaser for a period of not less than one year from the date of the Issue Letter. MMS and the Purchaser expressly understand and agree that this paragraph shall survive the termination of the Contract.

Delete ARTICLE VI - PAYMENTS, second bulleted paragraph and replace with paragraph 7.

7. As of the Effective Date, the Purchaser may elect to
- a. apply the ^{30 days or} balance of the estimated cash payment ^{90% of the month's} the Purchaser paid for the first ~~month's~~ royalty oil under the Contract to any outstanding bill issued by MMS pursuant to the Contract up to the amount of the estimated cash payment; or
 - b. reduce ~~surety~~, under ARTICLE X, to an amount, calculated by MMS, sufficient to cover the value of sixty-nine (69) days of royalty oil purchases. If the Purchaser elects to reduce its surety, MMS will retain the current estimated cash payment balance to pay for royalty oil delivered in the final month of the Contract.

Insert paragraphs 8 and 9 at end of ARTICLE X

8. Upon termination of deliveries of crude oil under the Contract, MMS will reduce the amount of the Purchaser's LC surety requirement in amounts proportionate to payments made by the Purchaser to fulfill payment obligations. Such reductions will occur at the time the Purchaser makes such payments. The Purchaser may not reduce the surety to an amount less than the amount that MMS determines, which is the amount required to

cover the estimated maximum adjustment that will be made to billed volumes following reconciliation, until the Purchaser pays the final bill (post reconciliation). MMS shall notify the Purchaser of this amount, within 90 days of the end of the month in which deliveries of crude oil under the Contract were terminated.

9. MMS will release the surety in its entirety when the Purchaser has paid all billed amounts up to and including bills issued following final volume reconciliation.

RATIFICATION

10. MMS and the Purchaser hereby ratify and confirm the Contract, as Amended hereby, and confirm that all of the other terms and conditions of the Contract not modified by this Amendment shall remain in full force and effect, when not inconsistent with any modification made herein.
11. In witness whereof the parties have executed this Amendment to Contract as of the Effective Date. MMS expressly acknowledges that this Amendment is made in accordance with approved MMS procedures.

MINERALS MANAGEMENT
SERVICE

PURCHASER

By: _____

Vernon B. Ingraham

Chief, Accounting & Reports Division

Royalty Management Program

By: _____

TITLE

Date: _____

Date: _____

TOLLING AGREEMENT

To avoid unnecessary administrative and judicial litigation, and to allow the Department of the Interior, through the Minerals Management Service (MMS) and the *PURCHASER* to review the facts and to present the issues fully and fairly, and to allow for potential legislation, which would forgive some or all potential liability by small refiners for underpayments that MMS believes have been made, the MMS agrees to forbear the issuance of any enforcement actions (e.g., demand letters, bills, invoices, orders or decisions) for a period of one year from the date this agreement is signed. In return, *PURCHASER* agrees that it will not assert as a defense to any claims, associated with the attached issue letter, by the Minerals Management Service (MMS) for underpaid royalties, late payment interest, or civil penalty that the limitation period under any applicable statute of limitations was running from the date of execution of this agreement until the date of termination of this agreement. *PURCHASER* further waives any defense of laches which it might otherwise assert with respect to that period.

Through this agreement, neither MMS nor *PURCHASER* waives any other rights, claims, or defenses.

PURCHASER

Minerals Management Service

BY: _____

By: _____

TITLE

TITLE

DATE: _____

DATE: _____

July 25, 1998

MARY T
231-3216

Ken, Mary, Linda, Bob, and a host of others!!!!

Item #3: Try this on for size:

Prices established pursuant to Tables A and B herein and the other terms and conditions herein will govern the Contract in lieu of any orders, rules, regulations or guidelines now in effect or hereafter issued by MMS which would otherwise apply.

Item #4: The small refiners are in agreement to fix the differentials established for Table B for the term of the contract. Therefore we are in agreement on the language which I faxed to you yesterday, as well as agreeing to move South Bend to Table A.

Item #6: We much prefer our language in paragraph #6 since we feel it is much more definitive than your version. However, we can't really make a judgement our your version without seeing the side letter on the tolling agreement. Upon receipt of the side letter, we can tackle the language issue on paragraph #6.

Don

Minerals Management Service
P.O. Box 25165
Bldg. 85, Denver Federal Center
Denver, CO 80225-0165
303-231-3749
Fax: 303-231-3362

FAX COVER SHEET

FAX NUMBER TRANSMITTED TO: 303-672-0331

To: Karol Kahalley
Of: Holland & Hart
From: Kenneth Vogel, Chief Office of Enforcement
Client/Matter: Gary-Williams
Date: June 26, 1998

DOCUMENTS	NUMBER OF PAGES*
Changes to paragraph 6 in amended RIK contract	1
Pro forma tolling agreement	1

COMMENTS:

Original will NOT follow.
For your approval/suggestions.
Please respond by Early Monday.

Lucy Querques (MMS Associate Director) and I spoke with Don Hamilton this morning. These changes are based on Lucy's understanding from a meeting attended by Tom S. in April in which it was agreed that the extension of time would be in a separate renewable tolling agreement for six months. I hope Don has let you know this was coming. In the amended RIK contract we have been working on a provision to assure the refiners that we would not soon issue enforcement documents to allow for the forgiveness legislation. The first page shows the old language, with OLD next to it: the refiner's in strikeout and MMS's in redline. The language I have drafted for your review is the bottom with NEW next to it. The pro forma tolling agreement is the second page and it would be an attachment.

The information contained in this facsimile message is information protected by attorney-client and/or the attorney/work product privilege. It is intended only for the use of the individual named above and the privileges are not waived by virtue of this having been sent by facsimile. If the person actually receiving this facsimile or any other reader of the facsimile is not the named recipient or the employee or agent responsible to deliver it to the named recipient, any use, dissemination, distribution, or copying of the communication is strictly prohibited. If you have received this communication in error, please immediately notify us by telephone and return the original message to us at the above address via U.S. Postal Service.

*** NOT COUNTING COVER SHEET. IF YOU DO NOT RECEIVE ALL PAGES, PLEASE TELEPHONE US IMMEDIATELY AT 303-231-3749.**

Paragraph 6:

OLD

~~MMS agrees to hold in abeyance for a period of two years from the Effective Date, any demand letters, invoices, orders or decisions regarding pricing adjustments to amounts due under this Contract for crude oil sold prior to the Effective Date. [MMS to suggest preferred tolling language]. MMS and the Purchaser expressly understand and agree that this paragraph 5 shall survive the termination of the Contract. Concurrently with the execution of this Agreement, MMS and the Purchaser have agreed by the terms of a letter agreement, which is attached, to hold in abeyance the issuance by the MMS of any enforcement or pre-enforcement and to toll any applicable defenses based on the possible untimeliness of the orders resulting from MMS restraining issue letters, orders or other enforcement documents due to this arrangement.~~

NEW

MMS agrees that it will not issue any demand letters, bills, invoices, orders or decisions regarding price related adjustments to amounts due under this Contract for crude oil sold prior to the Effective Date unless it has previously sent an Issue Letter, setting out any potential alleged price related adjustments for comment by Purchaser. Such an Issue Letter will not be issued prior to December 1, 1998. If MMS sends an Issue Letter, it will attach an agreement (*pro forma* agreement attached) to toll the issuance of any enforcement actions by MMS and any Statute of Limitations defense by Purchaser for a period of not less than six months from the date of the Issue Letter. MMS and the Purchaser expressly understand and agree that this paragraph shall survive the termination of the Contract

Urgent!

**Minerals Management Service
Washington Royalty Office
Washington, DC 20240
202-208-3512
fax: 202-208-3982**

To: Lou Commerford For Lucy Q.D.

Fax #: _____

From: Joan Kilgore

Date: 6/29

Number of pages including cover: _____

COMMENTS: Revised Kozel
OK A's - 205 pm est

Please call Ginger or Marilyn regarding any problems with this fax at 202-208-3512.

Questions about MMS small refinery RIK action:

1. Did MMS set the price of oil that the refineries paid?

The bills that MMS prepared were based on the prices provided by the producers of the oil that was made available for the RIK program. MMS did no other calculation to adjust the prices when they prepared the bills.

2. Did the refineries (refiners) influence MMS in determining the price of oil?

No. See the response to question number one.

3. Does MMS normally audit the small refineries? If yes, for what reason?

MMS normally does not. However, in the past some States with FOGDMA Section 205 delegated audits have audited some of the RIK production sold to small refiners. They identified that some producers were reporting posted prices as value, but were selling the production at postings plus premiums. This surfaced the problem that RIK oil was undervalued because MMS had relied on the producers to report cash royalties based on fair market value, as required by regulations. MMS in turn used reported value to bill the small refiners.

Since MMS believed crude oil was being valued properly by the producers, it had, in its audits of major companies, only verified that the volumes reported as RIK were, in fact, delivered to the small producers.

4. Is MMS only auditing the small refineries because it determined through its oil valuation rule that MMS sold oil below market value?

This problem was surfaced as discussed above. In 1996, when we announced a plan to conduct audits of crude oil value specifically in California and also nationwide, the small refiners were included since during 1995 and 1996 RIK royalties represented 30%-40% of all oil royalties.

5. If MMS established an independent price for the oil, why does MMS believe it can now go back and bill small refiners for additional amounts?

The regulations governing Royalty In Kind (30 CFR 208) require that MMS receive fair market value for the oil that it sells to small refiners. They further provide that if MMS underbills a refiner/purchaser because the producer/payer who provided the oil undervalued it, MMS may bill the refiner for the additional value.

6. It appears that the government got from the small refiners what it thought the fair market value of the oil was at the time. Why should the small refiners be liable for what appears to be a government mistake?

This is not a government mistake. As noted in our above responses, we have the authority to

pursue small refiners for additional value of RIK production.

7. Did the refiners profit more because MMS undervalued the oil, or is it reasonable to assume that the refiners used the price they paid MMS to determine the selling price of their products, if the MMS price was higher, the refiners would have had to increase their selling price to make a profit?

Since crude oil is only one of several refinery costs, it is not reasonable to assume that they would solely base the selling price of their refined products on the purchasing price of crude oil. Product prices would be based on what the market would bear.

8. It does not appear that small refiners are at fault in MMS undervaluing the price of oil it sold. Do you agree?

Because they operate in the market and conduct transactions with entities other than the Federal government, it seems logical that they would be aware of the full range of oil prices and therefore know if MMS is underbilling. On the other hand, the terms of their contract call for them to pay what they are billed by MMS and by timely paying the amount billed, they are fulfilling the terms of their contract. However, as noted above, the regulations allow for additional value to be pursued.

9. If they are not at fault, then this was a government mistake. Why can't MMS administratively stop the audits and billings?

Because the regulations require that MMS receive the proper price for the oil, we cannot abdicate that responsibility and administratively forgive the additional amounts.

10. Explain why you have this program and what qualifies a refiner to enter the program.

Under the Mineral Leasing Act of 1920 and the Outer Continental Shelf Lands Act of 1953, the Federal government, as lessor, may take part or all of its oil and gas royalties in kind. The Secretary of the Interior, exercising discretionary authority, has historically determined that certain oil refiners do not have access to a secure supply of crude. The Federal government may direct Federal lessees to pay their royalty shares in crude oil, rather than in value. The government then sells the RIK to eligible refiners.

In order to be eligible to receive oil under this program, a refiner:

A) who wishes to purchase onshore oil must qualify as a small and independent refiner pursuant to the Emergency Petroleum Allocation Act.

B) who wishes to purchase OCS oil must qualify as a small business enterprise under the rule of the Small Business Administration.

11. What is the volume of oil that MMS provides small refiners, and what percentage is this of

the total amount of royalty oil?

Attached is a chart which outlines the percentage of RIK oil volumes to total volumes.

	Total Oil Sales Volume	*RIK Sales Volume	Percentage of Total
1993	489,389,763	3,635,714	0.7429
1994	488,715,126	3,260,160	0.6671
1995	530,452,147	21,725,061	4.0956
1996	559,537,949	33,014,869	5.9004
1997	**594,835,850	N/A	N/A

STILL WORKING ON THIS ANSWER.

**Offshore of 478,775,008 final. Onshore of 116,060,842 is preliminary.

Author: Kenneth Vogel at "MMS-Denver-85-1"
Date: 06/23/98 04:35 PM
Priority: Normal
TO: Linda Shishido-Sheahan at "MMS-Denver-85-1"
Subject: Re: RIK Contract Amendment

1. Ok but did MARY change list per Gary-Williams input (there were two leases with incorrect delivery points - which we must tell lessees)?
2. I was aware of Geoff's concerns and I am pleased that Peter showed the good sense and the CQ agreed that we can be creative.
3. I cannot do it at noon EST tomorrow.
4. What are their concerns? We had never agreed to language before. Can you forward and then I could participate in telecon later tomorrow. Let me know by e-mail or call hotel. I am in room 370 , phone number is 757-220-2250.

Reply Separator

Subject: RIK Contract Amendment
Author: Linda Shishido-Sheahan at "MMS-DENVER-85-1"
Date: 6/23/1998 4:26 PM

Ken,

Lots of stuff has come up!!

1. Schedule B has not changed except Giant has drop those 3 leases. It is final now.
2. Gilman brought to our attention that Geoff Heath said we may have a legal problem with transportation reimbursement/recoupment. Heath's advice was to have the refiners take the oil at the lease and MMS get out of the transportation business. Are you aware of his concerns??? The next few message are related to this subject. Gilman, Prael, Mary and myself are meeting tomorrow in Vern's office at 10am (mst) to discuss several issues. Would you be able to join us by telecon???? PLEASE!!! Mary & I are very concerned with the response from the refiners if there are any delays. Since they have already traded Aug deliveries based on the negotiated contract terms. We have very little time left to resolve these concerns!!
3. Mary spoke to Placid and Calcasieu. They reviewed the changes you made on 6/19 and have concerns. They will not sign agreement the way it is written now. Luke said that he thought we had agreed to the prior language. We'd like to discuss ASAP!! PLEASE!!

MARY & I ARE SINKING FAST.....

Vern number is 231-3116.

Thanks!

Author: Donald Gilman at ~MMS-Denver-85-2
Date: 06/23/98 03:51 PM
Priority: Normal
TO: Linda Shishido-Sheahan at ~mms-denver-85-1
Subject: RIK transportation

Geoff..I'm not sure what the issue you cite in your message is concerning RIK transportation allowances, but it is important that you know we (ARD) are in the final stages of issuing a Dear Payor letter clarifying and explaining the deductibility and reporting of RIK transportation allowances.

Perhaps we ought to chat before the Dear Payor letter gets through the entire surnaming clearance process.

Forward Header

Subject: RIK transportation
Author: Vernon Ingraham at ~MMS-Denver-85-2
Date: 06/17/98 01:02 PM

fyi

Forward Header

Subject: RIK transportation
Author: GEOFFREY HEATH at ~DOI/SOL_HQ
Date: 06/17/98 12:44 PM

In response to Anne's message, and following up on a conversation Bonn and I had yesterday, we need to let you know that we have a very serious legal concern with the apparent past "practice" of allowing lessees to deduct the costs of transporting RIK oil against royalty in value owed under other leases. We need to discuss this.

Thanks!

Geoff

Author: Donald Gilman at ~MMS-Denver-85-2
Date: 06/23/98 03:50 PM
Priority: Normal
TO: Linda Shishido-Sheahan at ~MMS-denver-85-1
Subject: Re[2]: Transportation allowance practice-- RIK program

Go ahead and send Anne the draft dear payor letter.

Reply Separator

Subject: Re: Transportation allowance practice-- RIK program
Author: Donald Gilman at ~MMS-Denver-85-2
Date: 06/18/98 12:52 PM

Vern..As you know, the description on recoupment/refund of RIK transportation costs by the lessee/operator addressed in the attached briefing paper has been in practice for a number of years. A related E-Mail message sent today by Jim McNamee suggests that the practice probably has been in place since the mid 1980's.

More recently, limited analysis done by the RVD Team looking at the RIK valuation issue has resulted in questions concerning whether reporters: 1) are not including transportation costs in the value of RIK barrels reported on the 2014 upon which RMP bases RIK invoice amounts issued to refiners; and, 2) are recouping or requesting refund of the costs associated with moving the barrels to the designated delivery point. Because of this potential, we drafted the Dear Payor letter addressing and clarifying this issue. The Dear Payor letter is currently making it's way through the clearance process here in RMP.

If Anne would find it useful, we can get her a copy of the draft Dear Payor letter.

Reply Separator

Subject: Transportation allowance practice-- RIK program
Author: Vernon Ingraham at ~MMS-Denver-85-2
Date: 06/17/98 11:45 AM

Don, please take a look at this and advise me. I have not reviewed and will await your input.

Forward Header

Subject: Transportation allowance practice-- RIK program
Author: Anne Ewell at ~MMS-DOI
Date: 06/17/98 10:45 AM

We on the RIK Pilot Team reviewed prior briefing materials on the Small Refiner RIK program in preparation for implementing our pilots, including possible rulemaking.

The attached Briefing Paper on RIK Valuation and Transportation Issues was provided to Bill Condit in May 96.

It is of interest to our current team because it reported our Small Refiner RIK Program practice had been to allow an Offshore lessee to take a credit against royalties due (or to get a refund) to make the

lessee whole for certain transportation costs incurred to move RIA oil to a small refiner.

It would be beneficial for MMS to be able to test the efficacy of this approach in our pilots.

In the spirit of progress, not in the spirit of finger-pointing, Dave Hubbard wrote the attached, Vern, I, and many others reviewed it.

Question today is, has this been our practice? The practice is referred to in the attachment at page 1, para 2.

Please phone/e-mail me COB Thursday, if at all possible.

My new office phone number is (703) 787-1584.

Thanks,

ae

Author: Donald Gilman at ~MMS-Denver-85-2
Date: 06/23/98 03:49 PM
Priority: Normal
TO: Linda Shishido-Sheahan at ~mms-denver-85-1
Subject: Re: Transportation allowance practice-- RIK program

fyi

Forward Header

Subject: Re: Transportation allowance practice-- RIK program
Author: James McNamee at ~mms-denver-gh-1
Date: 06/18/98 09:31 AM

It would be easier to address Geoff's concern if I knew exactly what it is, but I think I know what he's talking about. The OCS lease terms (Section 6.c) say "...the Lessee shall be entitled to reimbursement for the reasonable cost of transporting the royalty substance to such delivery point." Likewise, the regulations (30 CFR 208.8(b)) state that "...MMS will reimburse the lessee for the reasonable cost of transportation to such point in an amount not to exceed the transportation allowance determined pursuant to 30 CFR part 206." The way we actually do it is a recoupment, which is different. I couldn't find anything in the OCSLA about it.

I talked with Dennis, and he and I agree that we've been allowing recoupments as long as we can remember, which is back to the early 80's. I imagine the decision was made to do it that way for the sake of expediency, but I'm not sure. Milt and/or Dave Slaigle might be able to shed some light on it.

This will become an issue if the Royalty Enhancement Act passes, because the lessees won't have any in-value royalties to recoup against. The team doing the "big" RIK pilots probably should test reimbursements because of that. The latest draft of the Act that I have (1/98), also provides for reimbursement, rather than recoupment (which is logical, given the "100%" concept) (Section 4(d)).

I'll be here the rest of this morning and tomorrow morning, if you want to talk about this.

Reply Separator

Subject: Transportation allowance practice-- RIK program
Author: Vernon Ingraham at ~MMS-Denver-85-2
Date: 6/17/98 1:32 PM

Jim, take a look at this and give me your thoughts. I'll send you another message immediately following.

Forward Header

Subject: Transportation allowance practice-- RIK program
Author: Anne Ewell at ~MMS-DOI
Date: 06/17/98 10:45 AM

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It is of interest to our current team because it reported our Small Refiner RIK Program practice had been to allow an Offshore lessee to take a credit against royalties due (or to get a refund) to make the lessee whole for certain transportation costs incurred to move RIK oil to a small refiner.

It would be beneficial for MMS to be able to test the efficacy of this approach in our pilots.

In the spirit of progress, not in the spirit of finger-pointing, Dave Hubbard wrote the attached, Vern, I, and many others reviewed it.

Question today is, has this been our practice? The practice is referred to in the attachment at page 1, para 2.

Please phone/e-mail me COB Thursday, if at all possible.

My new office phone number is (703) 787-1584.

Thanks,

ae

Author: Donald Gilman at ~MMS-Denver-85-2
Date: 06/23/98 03:49 PM
Priority: Normal
TO: Linda Shishido-Sheahan at ~MMS-denver-85-1
Subject: Re: RIK transportation

Don and Vern-- thought you guys should know, as you proceed to work with Geoff on your Dear Payor letter, that the Director made the statement below.

Please keep us plugged in as you (I hope) progress.

ae

Forward Header

Subject: Re: RIK transportation
Author: Bonn Macy at ~MMS-DOI2
Date: 6/17/98 5:16 PM

FYI

Forward Header

Subject: Re: RIK transportation
Author: Cynthia Quarterman at ~MMS-DOI
Date: 6/17/98 4:45 PM

I just spoke with Peter who agrees with me that in our rulemaking and contract design for Phase II of the Wyoming pilot we can be creative on this transportation issue under existing law. If we ever decide to do something more permanent on RIK, we may want to take up this issue again then. cq

Reply Separator

Subject: RIK transportation
Author: Bonn Macy at ~MMS-DOI2
Date: 6/17/98 1:04 PM

Thought you should be aware of the recent discussion with Geoff Heath. He is raising concerns about transportation costs incurred under the small refiner RIK program.

-B.

Forward Header

Subject: RIK transportation
Author: GEOFFREY HEATH at ~DOI/SOL_HQ
Date: 6/17/98 12:44 PM

In response to Anne's message, and following up on a conversation Bonn and I had yesterday, we need to let you know that we have a very serious legal concern with the apparent past "practice" of allowing lessees to deduct the

costs of transporting RIK oil against royalty in value owed
under other lease. We need to discuss this.

Thanks!

Geoff

Author: Kenneth Vogel at TMS-DENVER-85-1

Date: 06/19/98 02:28 PM

Priority: Normal

TO: Deborah Gibbs-Tschudy at MMS-DENVER-GH-4, Vernon Ingraham at MMS-DENVER-85-2,
Donald Gilman at MMS-DENVER-85-2, David Domagala at MMS-DENVER-GH-4,
Mary Turton at MMS-DENVER-85-2, Linda Shishido-Sheahan

Subject: Amended agreement

As changed this morning.

AMENDMENT TO CONTRACT NUMBER

This Amendment to Contract Number _____ ("Amendment") is made and effective as of the 1st day of August, 1998 ("Effective Date"), by and between the United States of America, Department of the Interior, Minerals Management Service ("MMS") and [name and address of Company] (the "Purchaser").

Recitals

MMS and the Purchaser are parties to a Contract for the Sale and Purchase of Government Royalty Oil, Contract Number _____, dated _____ (the "Contract").

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, MMS and the Purchaser expressly agree to modify/amend the Contract as follows:

Delete **ARTICLE IV - DELIVERY OF ROYALTY OIL**, paragraphs 1-4 (not numbered in original contract) and replace with numbered paragraph 1.

1. Unless otherwise specified, all ~~oil~~ crude oil will be physically delivered by the lessees at MMS's expense to the trading centers identified in Tables A and B for sale by MMS to the Purchaser at such trading centers. Crude oil specified in Table B will be physically delivered by the lessees at MMS's expense to the specific delivery locations identified in Table B. In either case, the Purchaser will be responsible for transportation from the designated delivery point.

Delete **ARTICLE V - PRICE** and replace with numbered paragraphs 2 through 5 and Tables A and B.

2. The Purchaser agrees to pay for royalty oil subject to this contract in accordance with the following terms. The price for each grade of crude oil will be based on the relevant market prices for the month of delivery and the agreed upon differentials as reflected in Tables A and B. For the purposes of the price formulas in Table A, the following items have the meanings set forth below:
 - a. "BS" (Bonito Sour) means the arithmetic average of the high and low price quotes for "Bonito" for Platt's Month of Delivery.
 - b. "EDQ" means equal daily quantities.
 - c. "EI" (Eugene Island) means the arithmetic average of the high and low price quotes for "Eugene Island" for Platt's Month of Delivery.
 - d. "HLS" (Heavy Louisiana Sweet) means the arithmetic average of the high and low price quotes for "HLS" for Platt's Month of Delivery.

- e. **"Koch Posting"** means Koch Oil Company's posting for West Texas/New Mexico Intermediate, deemed 40 degrees, EDQ for the Physical Month of Delivery.
 - f. **"Koch UTGC"** means Koch Oil Company's posting for Upper Texas Gulf Coast, deemed 40 degrees, EDQ for the Physical Month of Delivery.
 - g. **"LLS"** (Light Louisiana Sweet) means the arithmetic average of the high and low price quotes for "LLS" for Platt's Month of Delivery.
 - h. **"Physical Month of Delivery"** means the calendar month during which the delivery of crude oil occurs.
 - i. **"Platt's Month of Delivery"** means Platt's quotes from the twenty-sixth (26th) day of the month two (2) months prior to the month of delivery through the twenty-fifth (25th) day of the month one month prior to the month of delivery (excluding weekends and holidays).
 - j. **"P+" (Posting Plus)** means the arithmetic average of the high and low price quotes for "P-Plus WTI" for Platt's Month of Delivery.
 - k. **"Platt's"** means Platt's Oilgram Price Report.
 - l. **"WTI"** (West Texas Intermediate) means the arithmetic average of the high and low price quotes for "WTI" for Platt's Month of Delivery.
 - m. **"WTS"** (West Texas Sour) means the arithmetic average of the high and low price quotes for "WTS" for Platt's Month of Delivery.
 - n. **"UTGC"** means Upper Texas Gulf Coast.
3. Prices established pursuant to Tables A and B herein and the other terms and conditions herein will govern the Contract in lieu of any orders, rules, regulations or guidelines now in effect or hereafter issued by MMS. Nothing in this Contract shall change the effectiveness of any other order, rule, regulation or guideline.
4. While MMS retains the right to adjust the amount of monthly payments due MMS based on audits related to volumes taken by the Purchaser, prices established pursuant to Tables A and B herein may not be later adjusted by MMS. The price differentials in Table B are based on exchange agreements. The Purchaser agrees to furnish those exchange agreements to MMS before the Effective Date of this Agreement. The Purchaser must furnish new exchange agreements in advance of any change of differentials. Purchaser may not submit adjustments to differentials for production prior to the time the new exchange agreement is furnished to MMS. If the Purchaser fails to furnish the price adjustment prior to its taking effect, MMS may retroactively adjust the price differentials, and bill under the effective exchange agreement, at its sole discretion.

5. Prices established pursuant to Tables A and B herein are intended to apply prospectively as of the Effective Date. MMS may not use the fact of this Amendment to establish retroactive determination of value for any crude oil sold to the Purchaser before the Effective Date of this Amendment, or for any other purpose to seek additional payments from the Purchaser.

TABLE A		
<u>Crude Oil Grade</u>	<u>Delivery Point</u>	<u>Price per Barrel</u> <u>(for the Physical Month of Delivery)</u>
Light Louisiana Sweet	St. James, Louisiana	X-5, X-4
Heavy Louisiana Sweet	Empire, Louisiana	
Eugene Island	St. James, Louisiana	
Mars Blend	Clovelly, Louisiana	
Bonito Sour	St. James, Louisiana	
Texas Gulf Coast	Texas City, Texas	

¹ The following provides an example of this price calculation:

X-5,
X-4

TABLE B		
Lease #	Delivery Point	Price per Barrel

Insert paragraph 6.

6. ~~As of the Effective Date, MMS agrees to hold in abeyance for a period of two years from the Effective Date, any demand letters, invoices, orders or decisions regarding pricing adjustments to amounts due under this Contract for crude oil sold prior to the Effective Date. [MMS to suggest preferred tolling language]. MMS and the Purchaser expressly understand and agree that this paragraph 5 shall survive the termination of the Contract. Concurrently with the execution of this Agreement, MMS and the Purchaser have agreed by the terms of a letter agreement, which is attached, to hold in abeyance the issuance by the MMS of any enforcement or pre-enforcement and to toll any applicable defenses based on the possible untimeliness of the orders resulting from MMS restraining issue letters, orders or other enforcement documents due to this arrangement.~~

Delete ARTICLE VI - PAYMENTS, second bulleted paragraph and replace with paragraph 7

7. As of the Effective Date, the Purchaser may elect to
- apply the balance of the estimated cash payment surety the Purchaser paid for the first month's royalty oil under the Contract to any outstanding bill issued by MMS pursuant to the Contract up to the amount of the estimated cash payment surety; or
 - reduce its letter of credit ("LC") surety, under ARTICLE X, to an amount, calculated by MMS, sufficient to cover the value of sixty-nine (69) days of royalty oil purchases. If the Purchaser elects to reduce its surety, MMS will retain the current estimated cash payment balance to pay for royalty oil delivered in the final month of the Contract.

~~—— If the Purchaser elects to reduce its LC pursuant to option 6(b) above, MMS will retain the current cash surety balance to pay for royalty oil delivered in the final month of the Contract and MMS will reduce the LC surety amount required under 6(b) by the amount of the cash surety balance retained.~~

Insert paragraphs 8 and 9 at end of ARTICLE X

8. Upon termination of deliveries of crude oil under the Contract, MMS will reduce the amount of the Purchaser's LC surety requirement in amounts proportionate to payments made by the Purchaser to fulfill payment obligations. Such reductions will occur at the time the Purchaser makes such

payments. The Purchaser may not reduce the surety to an amount less than the amount that MMS determines ~~[MMS to insert dollar amount]~~, which is the amount required to cover the estimated maximum adjustment that will be made to billed volumes following reconciliation, until the Purchaser pays the final bill (post reconciliation). MMS shall notify the Purchaser of this amount, within 90 days of the end of the month in which deliveries of crude oil under the Contract were terminated.

9. MMS will release the surety in its entirety when the Purchaser has paid all billed amounts up to and including bills issued following final volume reconciliation.

RATIFICATION

10. MMS and the Purchaser hereby ratify and confirm the Contract, as Amended hereby, and confirm that all of the other terms and conditions of the Contract not modified by this Amendment shall remain in full force and effect, when not inconsistent with any modification made herein.
11. In witness whereof the parties have executed this Amendment to Contract as of the Effective Date. MMS expressly acknowledges that this Amendment is made in accordance with approved MMS procedures.

MINERALS MANAGEMENT
SERVICE

PURCHASER

By: _____

By: _____

Vernon B. Ingraham

Chief, Accounting & Reports Division

TITLE

Royalty Management Program

Date: _____

Date: _____

Author: Mary Turton at ~MMS .denver-85-2
Date: 06/09/98 04:11 PM
Priority: Normal
TO: Linda Shishido-Sheahan at ~mms-denver-85-1
Subject: Giant

They have some South Pass that we don't have as South Pass -

We have 2063 and 5479, they dropped 4794.

Others are:

2047
2084
2893
3394
3540
8680

maybe 2137

He promised a final list by Friday, but laughed when I said we would have the contracts ready. I told we would-Donna wasn't doing them any more.

Mary

Author: Vernon Ingraham at MMS-Denver-85-2

Date: 06/09/98 07:44 AM

Priority: Normal

TO: Donald Gilman, Linda Shishido-Sheahan at mms-denver-85-1

Subject: Comments on RIK contract amendment

Don, here are Bob's comments. Please review and advise Vogel and myself what changes should be made in the terms drafted by Gary-Williams. Be sure Linda is in the loop.

Forward Header

Subject: Comments on RIK contract amendment

Author: Robert Prael at MMS-Denver-85-2

Date: 06/08/98 08:29 AM

Comments to "Amendment to Contract Number _____"

I may have missed some things in the negotiations but here are my comments to the draft amendment to the contracts.

1. In recital #1, it is stated that delivery will be at MMS's expense. I thought we billed the refiner for the transportation and then the payor took the credit for the transportation so it was a wash to MMS.

2. All formulas take the average of the high and low price for a months worth of postings. This means we have to input each days posting. I guess I thought we were picking one days posting instead of a whole months and then averaging high and low prices.

3. All formulas have a subtraction for $X - 4$ Is this new or was it always part of the formula?

4. In recital #7, we use the term cash surety. Do we want to use this term or use cash estimate instead?

5. In recital #7, it is stated that if the purchaser retains their cash surety MMS will reduce the LC surety amount required under 6(b) by the amount of the cash surety balance retained. What does this mean? We are reducing "coverage" from 129 days to 99 days by either giving back the 30 day cash estimate or reducing the LOC from 99 days to 69 days and keeping the 30 day cash estimate. I could read this recital to mean we reduce "coverage" to 69 days. Is this what we are doing?

6. In recital #8, we are setting a surety level we won't go under to cover the estimated maximum adjustment on the final bill. I would not put a set dollar amount in a contract since contracts are cumbersome to amend, plus I do not see us coming up with any valid amount prior to doing the reconciliation work (which gets us into a Catch 22 situation).

Author: Donald Gilman at ~mms-denver-85-2
Date: 06/09/98 10:11 AM
Priority: Normal
TO: Linda Shishido-Sheahan at ~mms-denver-85-1
Subject: Comments on RIK Contract Amendment

Linda ..Please see attachment. To read the highlighted comments, do save as
in put into WP.

AMENDMENT TO CONTRACT NUMBER

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Recitals

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For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, MMS and the Purchaser expressly agree to amend the Contract as follows:

1. All crude oil will be physically delivered by the lessees at MMS's expense to the trading centers identified in Tables A and B for sale by MMS to the Purchaser at such trading centers. Comment: this provision is not consistent with the specific accommodations requested by Calcasieu and apparently agreed to by OE. The price for each grade of crude oil will be based on the relevant market prices for the month of delivery and the agreed upon differentials as reflected in Tables A and B. For the purposes of the price formulas in Table A, the following items have the meanings set forth below:

"BS" (Bonito Sour) means the arithmetic average of the high and low price quotes for "Bonito" for Platt's Month of Delivery.

"EDQ" means equal daily quantities.

"EI" (Eugene Island) means the arithmetic average of the high and low price quotes for "Eugene Island" for Platt's Month of Delivery.

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Heavy Louisiana Sweet	Empire, Louisiana	
Eugene Island	St. James, Louisiana	

¹ The following provides an example of this price calculation:

~~X-5
X-4~~

Mars Blend	Clovelly, Louisiana	X-5, X-4
Bonito Sour	St. James, Louisiana	
Texas Gulf Coast	Texas City, Texas	

TABLE B

<u>Lease #</u>	<u>Delivery Point</u>	<u>Price per Barrel</u>

2. Prices established pursuant to Tables A and B herein and the other terms and conditions herein will govern the Contract in lieu of any orders, rules, regulations or guidelines now in effect or hereafter issued by MMS. Comment: This provision is, in my opinion, unnecessarily broad. It establishes the contract modification as the sole guiding criteria for performance and enforcement under the contract to the exclusion of existing orders, rules and regulations. It is my understanding that this contract modification was intended to only change existing valuation provisions and certain audit exposure, not establish a replacement for existing regulations, orders, etc.

3. While MMS retains the right to adjust the amount of monthly payments due MMS based on audits Suggested lanaguage: and reconcilations related to volumes taken by the Purchaser, prices established pursuant to Tables A and B herein may not be later adjusted by MMS.

4. Prices established pursuant to Tables A and B herein are intended to apply prospectively as of the Effective Date. MMS may not use the fact of this Amendment to establish retroactive determination of value for any crude oil sold to the Purchaser before the Effective Date of this Amendment, or for any other purpose to seek additional payments from the Purchaser.

1

5. As of the Effective Date, MMS agrees to hold in abeyance for a period of two years from the Effective Date, any demand letters, invoices, orders or decisions regarding pricing adjustments to amounts due under this Contract for crude oil sold prior to the Effective Date. Comment: Is this true? First time I have heard of this issue. *[MMS to suggest preferred tolling language]*. MMS and the Purchaser expressly understand and agree that this paragraph 5 shall survive the termination of the Contract.

6. As of the Effective Date, the Purchaser may elect to

(a) apply the balance of the cash surety the Purchaser paid for the first month's royalty oil under the Contract to any outstanding bill issued by MMS pursuant to the Contract up to the amount of the cash surety; or

(b) reduce its letter of credit ("LC") to an amount, calculated by MMS, sufficient to cover the value of sixty-nine (69) days of royalty oil purchases.

Comment: The provisions of Paragraph 6 generally follow the relaxation RMP agreed to earlier with the refiners. However, we need to be sure that we still have a 99 day level of surety coverage remaining. If, for example, a refiner elects to apply (as most have) all of their estimated payment to a current months' RIK invoice, the possibility exists that application of the estimated payment, in its entirety, to a RIK invoice may not leave a 99 day level of coverage. This could happen as a result of: the dollar value of the invoice; earlier adjustments to surety levels; or adjustments to lease volumes resulting from prior reallocation of leases. Bottom line: we need to be sure before we sign on the dotted line here.

7. If the Purchaser elects to reduce its LC pursuant to option 6(b) above, MMS will retain the current cash surety balance to pay for royalty oil delivered in the final month of the Contract and MMS will reduce the LC surety amount required under 6(b) by the amount of the cash surety balance retained. Comment: When must MMS do this?

8. Upon termination of deliveries of crude oil under the Contract, MMS will reduce the amount of the Purchaser's LC surety requirement in amounts proportionate to payments made by the Purchaser to fulfill payment obligations. Such reductions will occur at the time the Purchaser makes such payments. The Purchaser may not reduce Suggested addition: without MMS concurrence the surety to an amount less than *[MMS to insert dollar amount]* which is the amount required to cover the estimated maximum adjustment that will be made to billed volumes following reconciliation, until the Purchaser pays the final bill (post reconciliation).

9. MMS will release the surety in its entirety when the Purchaser has paid all billed amounts up to and including bills issued following final volume reconciliation.

MMS and the Purchaser hereby ratify and confirm the Contract, as Amended

hereby, and confirm that all of the other terms and conditions of the Contract not modified by this Amendment shall remain in full force and effect, when not inconsistent with any modification made herein.

In witness whereof the parties have executed this Amendment to Contract
as of the Effective Date. MMS expressly acknowledges that this Amendment is
made in accordance with approved MMS procedures.

**MINERALS MANAGEMENT
SERVICE**

[COMPANY]

Vernon B. Ingraham
Chief, Accounting & Reports Division
Royalty Management Program
Date:

By:
Title:
Date:

Author: Deborah Gibbs-Tschu, at ~mms-Denver-GH-4
Date: 06/09/98 04:15 PM
Priority: Normal
TO: Linda Shishido-Sheahan at ~mms-denver-85-1
Subject: Re[2]: RIK Contract Amendment

Linda,

It appears that the change for MARS is consistent with the rest of the production; that is, X-5, X-4

Thanks.

Reply Separator

Subject: Re: RIK Contract Amendment
Author: Linda Shishido-Sheahan at ~MMS-DENVER-85-1
Date: 06/09/98 07:22 AM

Debbie--

Just want to make sure you do not have a problem with this price. I need to back to Don Hamilton.

Forward Header

Subject: Re: RIK Contract Amendment
Author: Kenneth Vogel at ~MMS-DENVER-85-1
Date: 06/09/98 06:00 AM

X-5,
X-4,

Reply Separator

Subject: RIK Contract Amendment
Author: Linda Shishido-Sheahan at ~MMS-DENVER-85-1
Date: 6/8/1998 4:17 PM

After reviewing the Contract Amendment prepared by Don Hamilton, I noticed that the price for Mars had changed from X-5, X-4

I spoke to Dave who was also unaware of this change. It was his understanding that it was still X-5, X-4. I called Don Hamilton who stated that you had agreed to change the price for MARS. I just want to confirm that you did agreed to this so I can get back with Don. If so, do we need to get concurrence from RVD???

Attached is a spreadsheet I've prepared to show the differences between the two prices. It appears we will get less than the original price, X-5, X-4

Also, please let me know about US Oil's counteroffer.



CALCASIEU REFINING COMPANY

**910 TRAVIS, SUITE 920
HOUSTON, TEXAS 77002
TELEPHONE: 713-652-0017
FACSIMILE: 713-652-9696**

June 9, 1998

Kenneth R. Vogel
Chief, Office of Enforcement
Minerals Management Service
Royalty Management Program
P. O. Box 25615
Denver, Colorado 80225-10165

Re: Proposed Contract Revision

Dear Mr. Vogel,

In response to your request concerning leases that should remain in place under the terms of the proposed contract revision, Calcasieu would like to keep the following leases at the current delivery location.

<u>Operator</u>	<u>Lease</u>	<u>Description</u>
Conoco	4254	Grand Isle
Conoco	7917	Grand Isle
Marathon	2061	South Bend
Meridian	5286	Gibbstown
Texaco	3147	Erath
Murphy	3147	Erath

If there are locations where the relocation of the delivery location is difficult, Calcasieu will work with the MMS.

If further information is needed concerning this topic please do not hesitate to contact me.

Sincerely,

Rodney L. Nelson
Vice President

Author: Vernon Ingraham at MMS-Denver-85-2

Date: 06/05/98 03:57 PM

Priority: Normal

TO: David Domagala at MMS-DENVER-GH-4, Kenneth Vogel at mms-denver-85-1,
Deborah Gibbs-Tschudy at MMS-DENVER-GH-4, Linda Shishido-Sheahan at mms-denver-85-1,
Robert Prael, Donald Gilman

Subject: Small Refiners' Contract Amendment

At Don Hamilton's request I'm forwarding the attached Contract Amendment. Amendwp.doc is in a Word Perfect for Windows format and amendwd.doc is in a Word for Windows format. Otherwise the attached files are identical. Please call me at 303-290-1634 if you have any questions.

AMENDMENT TO CONTRACT NUMBER

This Amendment to Contract Number _____ ("Amendment") is made and effective as of the 1st day of August, 1998 ("Effective Date"), by and between the United States of America, Department of the Interior, Minerals Management Service ("MMS") and [name and address of Company] (the "Purchaser").

Recitals

MMS and the Purchaser are parties to a Contract for the Sale and Purchase of Government Royalty Oil, Contract Number _____, dated _____, (the "Contract").

For good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, MMS and the Purchaser expressly agree to amend the Contract as follows:

1. All crude oil will be physically delivered by the lessees at (MMS's expense) to the trading centers identified in Tables A and B for sale by MMS to the Purchaser at such trading centers. The price for each grade of crude oil will be based on the relevant market prices for the month of delivery and the agreed upon differentials as reflected in Tables A and B. For the purposes of the price formulas in Table A, the following items have the meanings set forth below:

"BS" (Bonito Sour) means the arithmetic average of the high and low price quotes for "Bonito" for Platt's Month of Delivery.

"EDQ" means equal daily quantities.

"EI" (Eugene Island) means the arithmetic average of the high and low price quotes for "Eugene Island" for Platt's Month of Delivery.

"HLS" (Heavy Louisiana Sweet) means the arithmetic average of the high and low price quotes for "HLS" for Platt's Month of Delivery.

"Koch Posting" means Koch Oil Company's posting for West Texas/New Mexico Intermediate, deemed 40 degrees, EDQ for the Physical Month of Delivery.

"Koch UTGC" means Koch Oil Company's posting for Upper Texas Gulf Coast, deemed 40 degrees, EDQ for the Physical Month of Delivery.

"LLS" (Light Louisiana Sweet) means the arithmetic average of the high and low price quotes for "LLS" for Platt's Month of Delivery.

"Physical Month of Delivery" means the calendar month during which the delivery of crude oil occurs.

"Platt's Month of Delivery" means Platt's quotes from the twenty-sixth (26th) day of the month two (2) months prior to the month of delivery through the twenty-fifth (25th) day of the month one month prior to the month of delivery (excluding weekends and holidays).

"P+" (Posting Plus) means the arithmetic average of the high and low price quotes for "P-Plus WTI" for Platt's Month of Delivery.

"Platt's" means Platt's Oilgram Price Report.

"WTI" (West Texas Intermediate) means the arithmetic average of the high and low price quotes for "WTI" for Platt's Month of Delivery.

"WTS" (West Texas Sour) means the arithmetic average of the high and low price quotes for "WTS" for Platt's Month of Delivery.

"UTGC" means Upper Texas Gulf Coast.

TABLE A

<u>Crude Oil Grade</u>	<u>Delivery Point</u>	<u>Price per Barrel</u> (for the Physical Month of Delivery)
Light Louisiana Sweet	St. James, Louisiana	X-5; X-4
Heavy Louisiana Sweet	Empire, Louisiana	
Eugene Island	St. James, Louisiana	
Mars Blend	Clovelly, Louisiana	
Bonito Sour	St. James, Louisiana	
Texas Gulf Coast	Texas City, Texas	

TABLE B

<u>Lease #</u>	<u>Delivery Point</u>	<u>Price per Barrel</u>

2. Prices established pursuant to Tables A and B herein and the other terms and conditions herein will govern the Contract in lieu of any orders, rules, regulations or guidelines now in effect or hereafter issued by MMS.

3. While MMS retains the right to adjust the amount of monthly payments due MMS based on audits related to volumes taken by the Purchaser, prices established pursuant to Tables A and B herein may not be later adjusted by MMS.

4. Prices established pursuant to Tables A and B herein are intended to apply prospectively as of the Effective Date. MMS may not use the fact of this Amendment to establish retroactive determination of value for any crude oil sold to the Purchaser before the Effective Date of this Amendment, or for any other purpose to seek additional payments from the Purchaser.

The following provides an example of this price calculation:

X-5 / X-4

5. As of the Effective Date, MMS agrees to hold in abeyance for a period of two years from the Effective Date, any demand letters, invoices, orders or decisions regarding pricing adjustments to amounts due under this Contract for crude oil sold prior to the Effective Date. *[MMS to suggest preferred tolling language]*. MMS and the Purchaser expressly understand and agree that this paragraph 5 shall survive the termination of the Contract.

6. As of the Effective Date, the Purchaser may elect to

(a) apply the balance of the cash surety the Purchaser paid for the first month's royalty oil under the Contract to any outstanding bill issued by MMS pursuant to the Contract up to the amount of the cash surety; or

(b) reduce its letter of credit ("LC") to an amount, calculated by MMS, sufficient to cover the value of sixty-nine (69) days of royalty oil purchases.

7. If the Purchaser elects to reduce its LC pursuant to option 6(b) above, MMS will retain the current cash surety balance to pay for royalty oil delivered in the final month of the Contract and MMS will reduce the LC surety amount required under 6(b) by the amount of the cash surety balance retained.

8. Upon termination of deliveries of crude oil under the Contract, MMS will reduce the amount of the Purchaser's LC surety requirement in amounts proportionate to payments made by the Purchaser to fulfill payment obligations. Such reductions will occur at the time the Purchaser makes such payments. The Purchaser may not reduce the surety to an amount less than *[MMS to insert dollar amount]* which is the amount required to cover the estimated maximum adjustment that will be made to billed volumes following reconciliation, until the Purchaser pays the final bill (post reconciliation).

9. MMS will release the surety in its entirety when the Purchaser has paid all billed amounts up to and including bills issued following final volume reconciliation.

MMS and the Purchaser hereby ratify and confirm the Contract, as Amended hereby, and confirm that all of the other terms and conditions of the Contract not modified by this Amendment shall remain in full force and effect, when not inconsistent with any modification made herein.

In witness whereof the parties have executed this Amendment to Contract
as of the Effective Date. MMS expressly acknowledges that this
Amendment is made in accordance with approved MMS procedures.

**MINERALS MANAGEMENT
SERVICE**

[COMPANY]

Vernon B. Ingraham

By:

Chief, Accounting & Reports Division

Title:

Royalty Management Program

Date:

Date:

Author: David Domagala at ~LLS-denver-gh-4

Date: 05/29/98 03:04 PM

Priority: Normal

TO: Kenneth Vogel at ~mms-denver-85-1

CC: Deborah Gibbs-Tschudy, Mary Turton at ~MMS-DENVER-85-2,

Linda Shishido-Sheahan at ~mms-denver-85-1

Subject: Re: Don Hamilton Called

Called him, we spoke of 4 leases. He had two leases that can not be moved to St. James. He wanted X-5, X-4 The other two leases can not be moved either. He wants them to just stay where they are at and use the LLS method with no additional deductions. I told him that seemed reasonable. He thought we should contact the others because they may think that they have a month to get us this data. I'll do that next week.

Reply Separator

Subject: Don Hamilton Called

Author: Kenneth Vogel at ~MMS-DENVER-85-1

Date: 05/29/98 02:10 PM

He has three leases that do not flow to a trading center and wanted to tell you about them (I thought you were a better first contact). Obviously we can't make the operator deliver to a trading center so we need to agree on a differential (or a basis for getting one) Call him back if you can

Author: Kenneth Vogel at "MMS-DENVER-85-1"

Date: 05/28/98 01:58 PM

Priority: Normal

TO: Deborah Gibbs-Tschudy at "MMS-DENVER-GH-4, Vernon Ingraham at "MMS-DENVER-85-2,
David Domagala at "MMS-DENVER-GH-4, Linda Shishido-Sheahan,
Mary Turton at "MMS-DENVER-85-2

Subject: Call Dennis Cernosek at 504-346-7499 w/ Placid

Has one "south bend" lease, which he claims trades at X-5, X-4 He
will get it to us for analysis. Another reason to wait till July.
(Also the refiners have already started trading July (it starts a week
before the end of month) so there is another reason to wait.

Author: Lucy Querques Denel at ~MMS-DOI

Date: 05/27/98 09:12 AM

Priority: Normal

TO: Vernon Ingraham at ~MMS-DENVER-85-2, Deborah Gibbs-Tschudy at ~MMS-DENVER-GH-4

CC: David Domagala at ~MMS-DENVER-GH-4, Linda Shishido-Sheahan at ~mms-denver-85-1,
Donald Gilman at ~MMS-DENVER-85-2, Robert Prael at ~MMS-DENVER-85-2

TO: Kenneth Vogel at ~mms-denver-85-1

Subject: Re: RIK

What is incomplete?

Reply Separator

Subject: RIK

Author: Kenneth Vogel at ~MMS-DENVER-85-1

Date: 5/26/98 4:42 PM

I just spoke with Don Hamilton. He has spoken to the others and they believe that the letter I sent them has it right. They feel uncomfortable signing (an incomplete agreement) so they are trying to quickly draft more complete language amending the contract.
(Sansonetti has lead -- I will check with him tomorrow)

Author: Kenneth Vogel at ~MMS-DENVER-85-1

Date: 05/26/98 04:42 PM

Priority: Normal

TO: Lucy Querques Denett at ~MMS-DOI, Vernon Ingraham at ~MMS-DENVER-85-2,
Deborah Gibbs-Tschudy at ~MMS-DENVER-GH-4

CC: David Domagala at ~MMS-DENVER-GH-4, Linda Shishido-Sheahan,
Donald Gilman at ~MMS-DENVER-85-2, Robert Prael at ~MMS-DENVER-85-2

Subject: RIK

I just spoke with Don Hamilton. He has spoken to the others and they believe that the letter I sent them has it right. They feel uncomfortable signing (an incomplete agreement) so they are trying to quickly draft more complete language amending the contract.
(Sansoneetti has lead -- I will check with him tomorrow)

Author: David Domagala at ~mms-denver-gh-4

Date: 05/20/98 11:30 AM

Priority: Normal

TO: Mary Turton at ~MMS-DENVER-85-2, Linda Shishido-Sheahan at ~mms-denver-85-1,
Kenneth Vogel at ~mms-denver-85-1, Vernon Ingraham at ~MMS-DENVER-85-2,
Donald Gilman at ~MMS-DENVER-85-2, Robert Prael at ~MMS-DENVER-85-2,
Deborah Gibbs-Tschudy, David Hubbard

Subject: Current Crude Prices

Now is a difficult time to negotiate. It appears they don't need our supply.

Forward Header

Subject: Current Crude Prices

Author: Raymond Sagstetter at ~MMS-Houston-Audit

Date: 05/20/98 11:20 AM

Attached article from todays Dallas Morning News could be one of those "other factors" that may affect the "delta" we come up with when comparing crude prices after receiving bids.

Ray



Business

The Dallas Morning News

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Crude oil prices fall to \$12.96

Concerns over glut, Asia spark nosedive

05/20/98

By Dianne Solis / The Dallas Morning News

Triggered by a fresh report of burgeoning oil supplies, crude prices tumbled to as low as \$12.50 a barrel Tuesday - a price not seen in almost a decade.

After a late rally on the New York Mercantile Exchange, futures contracts for June delivery of the benchmark West Texas Intermediate closed at \$12.96 a barrel, down \$1.11 or almost 8 percent from Monday's close.

Crude prices have plunged 12 percent in the last three days of trading, as fears widened that violence in Indonesia, the world's fourth-most-populous nation, would dampen energy demand in Asia.

Tuesday's price swoon was also driven by the realization that storage tanks around the United States are full to the brim - yet another symbol of the global oil glut.

In one short hour Tuesday, prices fell a full dollar - the biggest drop since the Persian Gulf War in 1991. The plunge followed a report by Bloomberg News that storage tanks are full, especially in Cushing, Okla. Cushing is the delivery point for futures contracts at the New York Mercantile Exchange, the world's biggest energy market.

And at one point during the day, traders saw a gaping spread of \$2.13 between the expiring contracts for June delivery and the new July

contracts.

"There is just no storage space for oil," said Joe Posillico, a trader with ED&F Man International in New York.

The summer driving season traditionally begins over the upcoming Memorial Day weekend, and crude oil use picks up as motorists fill tanks with gasoline for holiday excursions. But some analysts believe higher demand during the summer months won't have much impact this year.

"The only thing that will stop this slide is further output cuts [by producing nations]," said Tom Bentz, an energy trader at Cresvale International LLC.

In March, 17 oil-producing nations agreed to take 1.7 million barrels a day off the market. As a result, prices briefly rose to around \$17 a barrel but then retreated to the \$15 level. The depressed prices reflect a global glut of oil estimated to be twice the amount of the pledged output cuts. Moreover, there are reports that the full 1.7 million barrels haven't been pulled from the market.

Members of the 11-nation Organization of Petroleum Exporting Countries have talked of the need for a new round of production cuts before the cartel's semiannual meeting June 24. Saudi Arabia Oil Minister Ali al-Naimi said that an additional 500,000 barrels need to be taken off the market, according to Bloomberg News.

Pressure has been growing for Mexico, a petro-powerhouse but non-OPEC member, to lead another effort for output cutbacks. In an unusual move in March, Mexican energy officials helped cobble together the first pact with OPEC nations and such non-OPEC oil producers as Norway.

Pressure for a new pact is likely to grow in the weeks to come. Oil prices have now fallen 40 percent since November and are lower than

they were before the first round of OPEC production cutbacks.

"The second wave of cuts will be much harder to get than the first," said Rafael Quijano, an analyst with Petroleum Finance Corp. in Washington.

Mexico, Venezuela and Saudi Arabia are in a hardball competition to sustain market share in the United States, which consumes fully a fourth of the world's daily crude output, Mr. Quijano said.

"Market share is going to be an important consideration every time someone cuts," he said. "The competition is now pretty serious."

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AGE REFINING, INC.

REFINING OFFICE
7811 S. Presa
San Antonio, Texas 78223
(210) 532-5300
(210) 532-7222 Fax

July 23, 1997

Department of Interior/MMS
Denver Federal Center
Building 85 MS 3130
Denver, CO 80225
ATTN: Mary Turten

*Ken,
This is a new
person who wants
to attend,*

Dear Mary,

Here is a diskette that contains all of the information from the MMS programs activity pertaining to AGE Refining from January 1995 thru July 1997. The information includes: actual production (RIK percentage), actual MMS billing and actual receipts from respective blocks. Hopefully we can reconcile these numbers and complete this before the end of March 1998..

If you have any questions regarding the numbers in this spreadsheet please do not hesitate to call me.

Sincerely,

Leo A. Gonzalez

Leo A. Gonzalez
MMS Accountant
AGE Refining, Inc.

*STACEY
THIS MAN WANTS TO
COME TO THE REFINER
MEETING ON 3/10.
CAN YOU CALL HIM/SEND
HIM INFO ON TIMES, HOTELS,
ETC.*

*Thanks,
Bob Mac
3/17*

Author: Vernon Ingraham at MMS-Denver-85-2

Date: 04/06/98 11:43 AM

Priority: Normal

TO: Linda Shishido-Sheahan at mms-denver-85-1, Mary Turton, Donald Gilman, Robert Prael,
James McNamee at MMS-DENVER-GH-1, Deborah Gibbs-Tschudy at MMS-DENVER-GH-4,
Kenneth Vogel at mms-denver-85-1, David Hubbard at MMS-DENVER-GH-4,
David Domagala at MMS-DENVER-GH-4

Subject: Re: Proposed draft language on refiner reneg.

Attached file contains the surety modifications ARD can implement. Nothing drastic and nothing which we see as jeopardizing the program.

I talked to Don Hamilton about this and he expressed his concern that we do nothing to jeopardize the program as there have been questionable companies in the RIK program in the past and should we have one or more in the future, a problem with one could end up being a problem for all refiners in the program - i.e., we kill the program or restructure it again.

Reply Separator

Subject: Proposed draft language on refiner reneg.

Author: David Domagala at mms-denver-gh-4

Date: 04/02/98 01:09 PM

Attached is a draft of a letter that includes the gist of our counter-proposal (after meeting with Lucy on Tues.). Vern/Don, the section on surety relief needs your input, I felt uncomfortable recounting what was agreed in this area. Please make additions/changes and send them to Ken.

I understand that Ken is going to phone the refiners on Friday rather than send a letter, so it will serve as a basis for talking points only.

-Thanks, -Dave

The MMS is agreeable to the following changes to the eligible refiner Royalty-in-Kind (RIK) contract surety requirements. The changes, if adopted, will be only for offshore RIK contracts in effect as of April 1, 1998, and only for those contracts for which a prospective pricing formula has been negotiated.

- The MMS will allow the refiner to:

--Apply the balance of the cash surety that the refiner paid for the first month's royalty oil under its contract to a current RIK bill (RIKB) or RIKBs, up to the amount of the cash surety; or

--Reduce its letter of credit to an amount, calculated by MMS, sufficient to cover the value of 69 days of royalty oil, while leaving the cash surety as is until it is used to pay for royalty oil delivered in the final month of the contract.

- The MMS will reduce (Ratchet down) the amount of the refiner's letter of credit in increments following the termination of the contract. The MMS will reduce the surety by corresponding amounts as the refiner fulfills its payment obligations. For example, when the refiner pays for a month's royalty oil after contract termination, the refiner will be allowed to reduce the surety to an amount sufficient to cover the remaining royalty oil payments, plus an amount to cover the estimated maximum adjustment that will be made to billed volumes following reconciliation. The surety will not be reduced to an amount less than that required to cover the estimated reconciliation amount until the refiner pays the final bill (post reconciliation). At that time, pursuant to the change explained in the last bullet below, the MMS will release the surety.

If the MMS still retains the cash surety, its value will be included with the letter of credit value in the calculations of the required surety amount until it is applied to an RIKB(s).

- The MMS will release the surety in its entirety when the refiner has paid all billed amounts, up to and including the RIKB issued following the final volume reconciliation.

Author: David Domagala at ~mms-denver-gh-4

Date: 04/27/98 09:25 AM

Priority: Normal

TO: Derald Reisinger at ~MMS-CONCORD

CC: Mary Turton at ~MMS-DENVER-85-2, Stacy Leyshon at ~mms-denver-85-1,

Linda Shishido-Sheahan at ~mms-denver-85-1

Subject: RIK Oil Valuation

Yes, Derald, that info. would be useful. Please send to me at mail stop 3151. Thanks, -Dave

Forward Header

Subject: RIK Oil Valuation

Author: Stacy Leyshon at ~MMS-DENVER-85-1

Date: 04/27/98 09:08 AM

FYI.

Forward Header

Subject: RIK Oil Valuation

Author: Derald Reisinger at ~MMS-CONCORD

Date: 4/24/98 9:29 AM

We are currently reviewing Chevron's oil valuation in the Gulf of Mexico. While we are not looking at RIK, we are getting invoices and other data on fields and areas containing some of the RIK leases for our test months.

Would this information be useful to you for comparison purposes?

Author: Kenneth Vogel at ~MMS-DENVER-85-1
Date: 04/29/98 01:19 PM
Priority: Normal
TO: Linda Shishido-Sheahan
Subject: Re[4]: Meeting with Don Hamilton

Don Hamilton called this morning, he is very unhappy that this thing has gone on as long as it has. He says he is getting heat from the other refiners and feels that he has nothing to tell them. He really wants to resolve this issue soon. He proposed a meeting on Friday at 10:00 in his office. I told him that we would show him our analysis and get direct feedback as to what we have found. We agreed that this should be our last meeting on this issue. -Dave

Reply Separator

Subject: Re[3]: Meeting with Don Hamilton
Author: Deborah Gibbs-Tschudy at ~mms-Denver-GH-4
Date: 04/28/98 10:37 AM

Looks like I won't be back in the office until Friday now.

The purpose of the meeting with Don is not so much to go in with a position and complete negotiations, but rather to review our latest analysis with him. The analysis that Dave and Mary completed last week still shows that, based on 1997 data, their offer is not much different than the prices we billed them based on what producers reported on Form MMS-2014.

Reply Separator

Subject: Re[2]: Meeting with Don Hamilton
Author: David Domagala at ~mms-denver-gh-4
Date: 04/28/98 09:12 AM

I left a message for Don yesterday, apparently he is out of the office until Thurs. but his secretary said he would call me to set up a meeting on Thurs or Fri. I still have not heard from him, but when I do, I'll let you know.

In terms of a premeeting, Debbie is out until Thursday, but I would be happy to meet anytime to discuss what we found. Also, I would like to ask that Mary Turton be involved as well because she assisted greatly in the comparisons. -Dave

Reply Separator

Subject: Re: Meeting with Don Hamilton
Author: Kenneth Vogel at ~MMS-DENVER-85-1
Date: 04/27/98 08:38 AM

Yes I am available. By this message I am also inviting Vern. Do we want a pre-meeting so that we have a position?

Reply Separator

Subject: Meeting with Don Hamilton
Author: Deborah Gibbs-Tschudy at ~mms-denver-gh-4
Date: 4/24/1998 4:11 PM

Don Hamilton called early this week after the refiners met with the Director and Lucy.

He asked if we might be able to get together at the end of this week to go over our analysis of their latest offer. I told him that we simply did not have time this week and that I would be in D.C. the first part of next week. So, we agreed to try to meet the end of next week (April 30 or May 1).

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Dave, please call him and set up a time to meet on May 1. Don said to please call him if there is any more information that you need in advance of the meeting.

Ken, would you be available to join us?